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Not-for-profit organizations industry developments - 2008; Audit risk alerts

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AUDIT RISK ALERT

2008 Not-for-Profit Organizations Industry Developments

Strengthening Audit Integrity
Safeguarding Financial Reporting

AUDIT RISK ALERT

2008

Not-for-Profit Organizations Industry Developments

STRENGTHENING AUDIT INTEGRITY
SAFEGUARDING FINANCIAL REPORTING

American Institute of Certified Public Accountants

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Notice to Readers

This Audit Risk Alert is intended to provide auditors of financial statements of not-for-profit organizations with an overview of recent economic, industry, technical, regulatory, and professional developments that may affect the audits and other engagements they perform.

This publication is an *other auditing publication* as defined in AU section 150, *Generally Accepted Auditing Standards* (AICPA, *Professional Standards*, vol. 1). Other auditing publications have no authoritative status; however, they may help the auditor understand and apply the Statements on Auditing Standards.

If an auditor applies the auditing guidance included in an other auditing publication, he or she should be satisfied that, in his or her judgment, it is both relevant to the circumstances of the audit and appropriate. The auditing guidance in this document has been reviewed by the AICPA Audit and Attest Standards staff and published by the AICPA and is presumed to be appropriate. This document has not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA.

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How This Alert Helps You

.01 This Audit Risk Alert (alert) helps you plan and perform your not-for-profit organization audits. This alert can also be used by an organization's internal management to address areas of audit concern. This alert provides information to assist you in achieving a more robust understanding of the business, economic, and regulatory environment in which your clients operate. This alert is an important tool in helping you identify the significant risks that may result in the material misstatement of financial statements. Moreover, this alert delivers information about emerging practice issues and current accounting, auditing, and regulatory developments.

.02 This alert is intended to be used in conjunction with AICPA *Audit Risk Alert—2007/08* (product no. 022338kk). This alert can be obtained by calling the AICPA at (888) 777-7077 or visiting www.cpa2biz.com. You should refer to the full text of accounting and auditing pronouncements as well as the full text of any rules or publications that are discussed in this alert.

.03 ***References to Professional Standards.*** When referring to the professional standards, this alert cites the applicable sections as codified in AICPA *Professional Standards* and not the numbered statements, as appropriate. For example, Statement on Auditing Standards (SAS) No. 54, *Illegal Acts by Clients*, is referred to as AU section 317 of AICPA *Professional Standards*.

Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

.04 An auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risks of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. An auditor's understanding of the entity and its environment consists of an understanding of the following aspects:

- Industry, regulatory, and other external factors
- Nature of the entity
- Objectives and strategies and the related business risks that may result in a material misstatement of the financial statements
- Measurement and review of the entity's financial performance
- Internal control, which includes the selection and application of accounting policies

.05 The not-for-profit industry may be subject to specific risks of material misstatement arising from the nature of its activities, the degree of regulation, or other external forces (for example, political, economic, social, technical, and competitive forces).

.06 The auditor should obtain an understanding of the organization's objectives and strategies and the related business risks that may result in material misstatement of the financial statements. Business risks result from significant conditions, events, circumstances, actions, or inactions that could adversely affect the organization's ability to achieve its objectives and execute its strategies, or through the setting of inappropriate objectives and strategies. Just as the external environment changes, the conduct of the organization's activities is also dynamic, and the organization's strategies and objectives change over time. An understanding of business risks increases the likelihood of identifying risks of material misstatement. However, the auditor does not have a responsibility to identify or assess all business risks. Most business risks will eventually have financial consequences and, therefore, an effect on the financial statements. However, not all business risks give rise to risks of material misstatement.

.07 After obtaining a sufficient understanding of the organization and its environment, including its internal control, an auditor should identify and assess the risks of material misstatement at the financial statement level and at the relevant assertion level related to classes of transactions, account balances, and disclosures based on that understanding.

.08 Understanding and properly addressing, as necessary, the matters presented in this alert will help you gain a better understanding of your client's environment, better assess risks of material misstatement of the financial statements, and strengthen the integrity of your audits.

Economic and Industry Developments

The State of the Economy

.09 When planning and performing audit engagements, an auditor should understand the economic conditions facing the industry in which the client operates. Economic activities relating to factors such as interest rates, consumer confidence, overall economic expansion or contraction, inflation, and labor market conditions are likely to have an impact on the organization's financial statements being audited.

.10 The U.S. real gross domestic product (GDP), the broadest measure of economic activity, measures output of goods and services by labor and property within the United States and increases as the economy grows. According to the Bureau of Economic Analysis, real GDP increased at an annual rate of 2.2 percent in 2007, compared with an increase of 2.9 percent in 2006. According to 2007 fourth-quarter final estimates, real GDP increased at an annual rate of just 0.6 percent, down from third quarter real GDP growth of 4.9 percent.

.11 The unemployment rate remained relatively unchanged during 2007, holding between 4.4 percent and 5.0 percent, with an annual average rate of 4.6 percent. As of February 2008, the unemployment rate was 4.8 percent, representing approximately 7.4 million people.

.12 The target for the federal funds rate remained stable at 5.25 percent from June 2006 to September 2007 when the Federal Reserve began decreasing rates. Since the first rate decrease in September 2007, the Federal Reserve has decreased rates a total of 3.00 percentage points to 2.25 percent as of the end of March 2008. The Federal Reserve noted in its March press release that financial markets continue to experience considerable stress and credit continues to tighten for some businesses and households. The housing contraction continues to deepen and labor markets soften. As such, the policy actions taken to decrease rates are meant to promote moderate growth over time and mitigate risks to economic activity while moderating inflation.

The State of Not-for-Profits

.13 The not-for-profit sector is a growth industry. According to a study by the National Center for Charitable Statistics at the Urban Institute that covered the period from 1996 to 2006, the total number of not-for-profits recognized by the IRS increased by 36 percent. Contributions to these organizations in 2006 exceeded $295 billion while total revenues in the sector approached $1.6 trillion and assets held topped $4.3 trillion. According to U.S. Department of Labor (DOL) statistics, 27 percent of the population, or 61 million people in the United States, did volunteer work for not-for-profit organizations. As of January 1, 2007, there were 1.5 million not-for-profit organizations registered with the IRS.

.14 The Philanthropic Giving Index (PGI), established by The Center on Philanthropy at Indiana University, measures trends and expectations in United States charitable giving. The index showed a 1.5 percent increase during 2007, which indicates that the overall climate remained stable during that period.

.15 Not-for-profit organizations continue to face challenges, including continuing demands for accountability from the public and the legislative community. The ongoing demands for accountability have led to the voluntary implementation of Sarbanes-Oxley or similar regulations by some not-for-profit organizations and further discussion of future expansion of those or similar regulations to not-for-profits.

.16 The U.S. economy has shown signs of decline during the first quarter of 2008 and auditors should continue to monitor the impact of economic trends on audit risk throughout the year. The auditor should be aware of regional conditions as well as national conditions when establishing expectations for financial results. This is especially true for the not-for-profit sector in that 70 percent to 80 percent of charitable contributions are for local causes. The health of the local labor market can also have a substantial impact on donations.

Governance and Accountability

.17 Since 2002, when the Sarbanes-Oxley law was enacted, a number of accounting fraud cases have come to light. Many attribute the increase to improved detection as a result of the stringent internal control testing requirements and other provisions of the law, such as whistle-blower hotlines. While the whistle-blower and document retention provisions currently apply to both publicly held companies and not-for-profits, discussion about expanding other provisions of the law to include not-for-profit organizations has occurred. Some not-for-profit organizations have voluntarily adopted some of the provisions of Sarbanes-Oxley, including formation of an audit committee and CFO and CEO certification of the financial statements, either as a result of expectations from their corporate board members or in an effort to improve governance and accountability practices.

.18 Grant Thorton recently issued a survey, conducted in 2007, of 603 top level representatives of religious, social and human services, cultural, and healthcare organizations; educational institutions; and trade and professional associations in 47 states and the District of Columbia. According to the survey, 87 percent of not-for-profit organizations that participated in the survey have made changes to their policies with the goal of improving governance and accountability. The policies that the majority are rewriting or establishing include conflict of interest, investment, code of ethics, records-retention, whistleblower, gift acceptance, review of tax filings, and new board member policies. Nearly two-thirds of those surveyed have also developed an accounting policies and procedures manual, established an audit committee to oversee the financial statement audit and monitor internal controls, and included a CPA on their governing board or audit committee.

Corporate Sponsors

.19 Corporate giving declined by almost 7.0 percent in 2006, although it represents only 4.3 percent of the total giving for a total of $13 billion. However, in-kind giving continues to increase. More than one-third of corporate giving is in-kind. In some circumstances, resources received from corporations are advertising or sponsorship arrangements rather than straightforward monetary contributions and often strings are attached to the transfer. Specifically, the corporation may require goods or services in exchange for those funds, such as naming rights, discounted access to services, and advertisement of the company, among others. Because these transactions may be considered exchange transactions, contributions, or both, not-for-profits must be sure that the transactions are properly recorded in their books.

Embedded Giving

.20 Embedded giving, which builds a gift to a not-for-profit organization into an ordinary consumer purchase, has become a fast growing fundraising practice and an area that is drawing some attention from the U.S. Senate. Although this practice is effective at raising funds on behalf of charities, there are issues regarding accountability for those funds. Not-for-profit organizations may not be aware that money is being solicited in their name. In addition, they may not know what portion of the collected funds to which they are entitled or when they will receive the funds. Consumers may find it difficult to determine whether the money is going to the designated not-for-profit organization. A bill, S. 2529, was introduced in December 2007 in the U.S. Senate to improve disclosures for charitable giving, protect not-for-profit organizations, and inform consumers. The full text of this bill can be found at http://thomas.loc.gov/cgi-bin/query/z?c110:S.2529:.

Funding Administrative Costs

.21 Foundations, corporations, and individuals may have different priorities when it comes to selecting a not-for-profit organization to support. Some may consider the organization's mission, its reputation, the number of people served, or even who else supports it. One factor that frequently receives significant consideration is the percentage of each dollar that is spent on programs. Many donors have the perception that the biggest impact they can make with their contribution is by supporting only programmatic activities. Accordingly, operating expenses such as the accounting department, maintenance and utilities, and the executive management staff often must be supported by unrestricted dollars. Some organizations follow policies for cost allocations, charges, assessments, or assignments that result in some amount of program restricted contributions used for operating expenses. Organizations and their auditors should be careful to understand the administrative allocation process, and whether overhead costs can be paid for with restricted contributions. In addition, some not-for-profit organizations are more frequently requesting funding for organizational administration either as a component of or in addition to their requests for program funding. Auditors should develop a full understanding of the terms of these agreements, including whether they result in restrictions on the use of the funds.

Changing Face of Donors

.22 There has been an increase in the desire for control and "a say in" the direction of the mission of organizations by young donors. Though no statistics are available, a general belief is that the younger affluent donors want to participate as donors and volunteers to the organizations they support more than their older counterparts. They are more likely to want elements of control as conditions of their gifts. Anonymous giving is also increasing. A study conducted by Indiana University reveals that anonymous gifts greater than $5 million increased from 13 gifts in 2005 to 27 gifts in 2006 and 37 gifts in 2007. Possible reasons for the increase are safety concerns of the donors, adherence to religious principles, a desire to avoid solicitations from other organizations, and avoidance of family conflicts. Issues of donor privacy may present unusual problems for auditors as they attempt to confirm the amount and terms of these substantial gifts.

Retiring Work Force

.23 The demographic shift in the workplace, as baby boomers near retirement, is affecting the not-for-profit sector. Surveys indicate that 50 percent to 70 percent of executive directors plan to leave within 5 years. Many are founders and leaders, closely identified with their organizations.

.24 As the sector already suffers from fragile infrastructures, the transitions are expected to be hugely disruptive. Many organizations devote resources to programmatic functions, and do not have executives in training to replace these positions. Succession planning is not seen as a priority.

.25 Auditors may want to consider how the retirement of a key employee, such as the executive director, will affect the organization's internal control procedures and its ability to generate revenues and how the organization will address these issues when they arise.

Cyber Donations

.26 The Internet has become the quick and easy means of providing and accessing information. It has also become a tool to expand the audience of not-for-profit organizations in a way that appeals to younger and more technologically savvy donors. As you surf the net you will find Web sites for thousands of not-for-profits and on most of them will be the opportunity to contribute. Many of these organizations make use of services such as PayPal to permit donors to charge online donations to credit or debit cards. The money is then placed in an account similar to a bank account in the organization's name and a fee is deducted. At some future time the money is then electronically transferred to another bank account as specified by the not-for-profit organization. This may be an area that auditors find worthy of attention in that the not-for-profit organization's internal controls that are required for these accounts may be different from those for deposit accounts at brick and mortar banks. For example, the organization may have controls regarding who is authorized to sign checks but does the organization have controls in place to safeguard usernames and passwords for accounts that allow transactions to be initiated through the Internet. One recent twist on both online and embedded giving is the advent of charity gift cards. The recipient of the gift card goes to the card's Web site and designates which of the listed charities is to receive the donations. Some sites charge an administrative fee at the time of purchase, others when the card is redeemed.

Ethics Rules Overhaul

.27 Lawmakers cannot accept gifts from groups that employ lobbyists. Currently, it is still unclear whether certain not-for-profit organizations are considered to be groups that employ lobbyists pursuant to these new rules. This has led to confusion around charitable events, as lawmakers and charities are unclear whether hand-outs provided by not-for-profit organizations such as meals, gift bags, or free of charge spousal attendance at events violates these rules.

The Independent Sector

.28 In October 2007, the Panel on the Nonprofit Sector, convened by the Independent Sector, released a document titled *Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations*.

.29 Convened in October 2004, at the encouragement of the leaders of the Senate Finance Committee, the Panel on the Nonprofit Sector is an independent group of not-for-profit leaders who recommend actions to strengthen the governance, ethical conduct, and accountability of charitable organizations. The panel's members represent a wide range of the not-for-profit community, such as organizations large and small; charities, foundations, and corporate giving programs; and organizations that operate worldwide or in a single community.

.30 The stated purpose of the panel is to preserve the soundness and integrity of the not-for-profit community by striking a careful balance between prudent legal mandates to ensure that organizations do not abuse the privilege of their exempt status and well-informed self-governance and mutual awareness among not-for-profit organizations.

.31 Not-for-profit organizations have long embraced the need for standards of ethical practice that preserve and strengthen the public's confidence. Many such systems in fact already exist, though none have applied to the entire range of American charitable organizations. The guide outlines 33 practices designed to support board members and staff leaders of every charitable organization as they work to improve their own operations. The 33 principles are organized under 4 main categories:

- Legal Compliance and Public Disclosure
- Effective Governance
- Strong Financial Oversight
- Responsible Fundraising

.32 The panel strongly recommends that an organization's board conduct a thorough discussion of the complete set of principles, and determine how the organization should apply each to its operations. It is possible that after this review, a board may conclude certain principles do not apply to its organization. Developing a transparent process for communicating how the organization has addressed the principles, including the reasons that any of the principles are not relevant, is likely to foster a greater appreciation of the diverse nature of the sector and deeper respect for the board's good stewardship.

.33 The complete guide can be accessed at www.nonprofitpanel.org/report/principles/Principles_Guide.pdf.

Legislative and Regulatory Developments

Results of Federal Study on Single Audit Quality

.34 The long-awaited federal study on the quality of audits performed under Office of Management and Budget (OMB) Circular A-133 was issued on June 22, 2007. This section presents a background of the study, a summary of findings, a listing of some deficiencies noted, and the report recommendations. The section also highlights the AICPA and its Governmental Audit Quality Center's (GAQC) next steps to responding to the report.

Background

.35 Several years ago, a group of federal Offices of Inspectors General (OIGs), along with three state auditor's offices, decided to work together to develop a statistically based measure of single audit quality (the project). The U.S. Department of Education served as the project leader. The project had two primary goals:

- Determine the quality of single audits and establish a statistically based measure of audit quality
- Recommend changes in single audit requirements, standards, and procedures to improve the quality of single audits

.36 To accomplish these goals, the OIGs conducted quality control reviews (QCRs) of a statistical sample of 208 audits randomly selected from approximately 38,000 audits submitted to and accepted by the Federal Audit Clearinghouse (FAC) between April 1, 2003 and March 31, 2004. Generally, the audits reviewed were from the 2002–2003 timeframe and, in some cases, earlier. The sample was split into two strata. Stratum I included audits of entities with $50 million or more of total federal expenditures. Stratum II included audits of entities with at least $500,000 but less than $50 million of total federal expenditures.

.37 The scope of the project covered portions of the single audit relating to the planning, conduct, and reporting of audit work related to the review and testing of internal controls and compliance testing pertaining to compliance requirements for selected major federal programs. Documentation of audit work for up to three major programs for each audit was reviewed. Further, the review included audit work performed on the Schedule of Expenditure of Federal Awards (SEFA) and the content of all of the auditor's reports on the federal programs. The scope did not include a review of the content of, or the audit work performed, related to the general-purpose financial statements, the auditor's opinion on those statements, or the auditor's review of internal control over financial reporting.

Summary of Findings

.38 The issues and deficiencies identified in each QCR were compiled, and each engagement was then classified into one of three groupings. The groupings are defined as follows:

- **Acceptable.** No deficiencies were noted, or one or two insignificant deficiencies were noted. In some cases, the acceptable audits had deficiencies with applicable auditing criteria noted, which did not require corrective action, but should be corrected going forward.
- **Limited reliability.** Significant deficiencies with applicable auditing criteria were noted and require corrective action to afford unquestioned reliance upon the entire audit.
- **Unacceptable.** Deficiencies were so serious that the auditor's opinion on at least one major program cannot be relied upon, or a material reporting error was noted requiring that the report be reissued in order to be relied upon by users, or both.

.39 The President's Council on Integrity and Efficiency (PCIE) report clearly shows that improvements are needed in many areas. The tables shown below summarize the overall results and results by stratum. In addition to providing results by the number of audits reviewed, the OIGs also analyzed the results in relation to the dollar amounts of federal awards reported in the audits reviewed. Results in relation to dollar amounts reported in the audits reviewed show a much higher percentage of acceptability. The following tables show the results for both strata combined and then the results of Stratum I and Stratum II individually.[1]

TOTAL SAMPLE (STRATA I & II)				
	Acceptable	***Limited Reliability***	***Unacceptable***	***Total***
Sampled Audits	115	30	63	208
Percent of Audits	49%	16%	35%	100%
Percent of Federal Dollars	93%	2%	5%	100%
STRATUM I (>$50 Million in Federal Expenditures)				
	Acceptable	***Limited Reliability***	***Unacceptable***	***Total***
Sampled Audits	61	12	23	96
Percent of Audits	64%	12%	24%	100%
Percent of Federal Dollars	93%	2%	5%	100%

[1] The report indicates the confidence parameter was 90 percent, and the precision parameters ranged between plus or minus 2.1 and 7.9 percentage points.

TOTAL SAMPLE (STRATA I & II)—continued				
STRATUM II ($500 Thousand–$50 Million in Federal Expenditures)				
	Acceptable	***Limited Reliability***	***Unacceptable***	***Total***
Sampled Audits	54	18	40	112
Percent of Audits	48%	16%	36%	100%
Percent of Federal Dollars	56%	10%	34%	100%

Deficiencies Identified

.40 The PCIE report goes into detail regarding the deficiencies noted on the audits reviewed. The following presents a brief summary of deficiencies identified:

- Misreporting of audit coverage of major federal programs
- Unreported audit findings
- Compliance testing not documented as performed or not applicable
- Deficiencies in understanding and testing of internal control over compliance
- Deficiencies in risk assessments as part of major program determination
- Missing audit finding information
- Deficiencies in presentation and auditing of the SEFA
- Management representations related to federal awards missing or misdated
- Consideration of audit materiality at the major federal program level not documented
- Other kinds of deficiencies (described in appendix A of the report)

PCIE Report Recommendations

.41 The PCIE report proposes a three-pronged approach for reducing the deficiencies noted and to improve the quality of single audits. The recommendations in the report are directed to various organizations, including the OMB and other federal agencies, the AICPA, and other single audit stakeholders. A summary of the recommendations is as follows:

- Revise and improve single audit criteria, standards, and guidance to address deficiencies noted in the report. Specific recommendations are described throughout Part II and the "Other Matters" sections of the PCIE report and include recommendations for revisions to Circular A-133 and, in some cases, additions or clarifications to AICPA auditing standards and the AICPA Audit Guide Government Auditing Standards *and Circular A-133 Audits*.

- Establish minimum requirements for completing comprehensive single audit training as a prerequisite for conducting such audits (the report suggests at least 16–24 hours) and thereafter, require single audit update training for continued performance of single audits.
- Review and enhance processes to address unacceptable audits and not meeting established training and continuing professional education requirements. This includes (*a*) reviewing the process of suspension and debarment; (*b*) identifying ways that the AICPA and State Boards of Accountancy can further the quality of single audits and address due professional care issues; and (*c*) identifying, reviewing, and evaluating the potential effectiveness of other ways to address unacceptable audits (these other ways could include sanctions to be applied to auditors or fines, or both).

Next Steps

.42 The AICPA shares the commitment of the federal agencies involved in the project to improving the quality of single audits. Many of the audits reviewed were performed 4–5 years ago, and the AICPA is hopeful that many endeavors over the last several years (for example, the launch of the GAQC) have already begun to address some of the issues raised in the PCIE report.

.43 However, auditors should take this report very seriously and read the PCIE report in its entirety to determine if the audit quality deficiencies cited in the report may affect the planning of your future engagements or your current audit methodologies and documentation practices.

.44 The AICPA and the GAQC Executive Committee and GAQC staff will be working closely with the federal government on a go-forward basis to address the PCIE report recommendations. During the course of the next year, auditors should watch the GAQC Web site at www.aicpa.org/GAQC for updates on initiatives undertaken by the AICPA and others in response to the PCIE report.

Help Desk—To access the PCIE report go to the following Web site: www.ignet.gov/pande/audit/NatSamProjRptFINAL2.pdf.

Government Auditing Standards Developments

.45 In July 2007, the U.S. Government Accountability Office (GAO) issued the July 2007 revision to *Government Auditing Standards* (Yellow Book or GAO Report No. GAO-07-731G). The July 2007 revision supersedes the 2003 revision and updates the January 2007 revision. The July 2007 revision contains the final 2007 revisions, including the quality control and peer review sections in chapter 3, which the GAO had exposed for comment in January 2007. The July 2007 revision represents the completed 2007 revision of *Government Auditing Standards* and is the version that should be used until further revisions or updates are made. It will be effective for financial audits and attestation engagements for periods beginning on or after January 1, 2008 and for performance audits beginning on or after January 1, 2008. Early implementation is encouraged. A downloadable version of the complete July 2007 revision is available on the GAO's Yellow Book Web page at www.gao.gov/govaud/ybk01.htm. You will also find ordering information for the printed version on the GAO's Yellow Book Web page.

.46 The GAO has also issued a summary document titled *Major Changes: July 2007 Revision to* Government Auditing Standards on its Web site at www.gao.gov/govaud/somc0707.pdf. This document highlights key revisions to the standards including those specifically related to ethics and independence, professional judgment and competence, all types of audits and attestation engagements performed under the Yellow Book, and financial and performance audits. The listing of changes is intended to assist practitioners in updating their related policies and procedures for conducting government audits.

IRS Activities

E-Postcard Required for Small Exempt Organizations

.47 Beginning in 2008, exempt organizations with gross receipts under $25,000 must make an annual electronic filing with the IRS using Form 990-N, *Electronic Notification (e-Postcard) For Tax-Exempt Organizations Not Required to File Form 990 or 990–EZ*. The e-Postcard is due in 2008 for tax years beginning on or after December 31, 2006. If an organization that is required to file fails to do so for three consecutive years, it will lose its tax exempt status. For more information and a link to the e-Postcard go to www.irs.gov/charities/article/0,,id=169250,00.html.

Form 990 Redesigned for Tax Year 2008

.48 In December 2007, the IRS issued an updated version of Form 990 for tax year 2008 (which will be filed in 2009). The stated goals of the IRS in redesigning Form 990 are enhancing transparency, promoting tax compliance, and minimizing the burden on the filing organization. The basic structure of the new form consists of an 11 page core form, which is to be completed by all filers, and 16 schedules designed by topic (lobbying, related parties, compensation, and so on). There is a transition period for smaller organizations, which may allow them to use Form 990-EZ and for certain schedules pertaining to hospitals and tax-exempt bonds. There have also been substantial changes to the amount and type of information that is required on the new Form 990. Some of the more significant changes include the following:

- More questions regarding organizational governance practices
- Disclosure of information from the organization's audited financial statements
- Expansion of compensation information disclosures
- Expansion of disclosures regarding programs and activities of the organization

.49 The IRS issued preliminary instructions and a glossary for use with Form 990 in April 2008. More information, including drafts of the form and schedules, is available at www.irs.gov/charities/article/0,,id=176613,00.html.

Department of Treasury and IRS Issue Priority Guidance Plan for 2008

.50 Fiscal year 2008 priorities are addressed through a flexible and interdisciplinary array of new tools to focus on enforcement of the tax law and to improve customer service. Priorities include the following:

- Implementing a voluntary compliance program for delinquent filers
- Addressing the issue of donor control and noncash contributions
- Continuing a variety of compliance projects that focus on areas such as political activity, executive compensation, community foundations, and colleges and universities
- Implementing Tax Exempt Determination System (TEDS) to improve processing of exempt organization applications
- Developing a new compliance guide, a *cyber assistant*, and formal guidance on hot topics such as Form 990 revisions

.51 Additional information on these and other topics is available at www.irs.gov/pub/irs-tege/fy08_implementing_guidelines.pdf.

Exempt Organization Abusive Tax Avoidance Transactions

.52 Tax-exempt organizations, by definition, are exempt from federal income tax under various provisions of the Internal Revenue Code (IRC). However, some are directly involved in Abusive Tax Avoidance Transactions (ATATs). In addition, because they are tax-indifferent, tax-exempt organizations are, at times, used by for-profit entities as accommodation parties in these transactions. Identifying and responding to ATATs involving tax-exempt organizations is critical to the IRS objective of discouraging and deterring noncompliance within tax-exempt and government entities.

.53 As a result of provisions included in the Tax Increase Prevention and Reconciliation Act (TIPRA) of 2005, the Treasury Department and IRS have issued proposed and temporary regulations under IRC Section 4965, which imposes excise taxes and disclosure requirements with respect to prohibited tax shelter transactions to which tax-exempt entities are parties. The new regulations provide (1) rules regarding the form, manner, and timing of disclosure obligations and (2) return requirements accompanying payment of excise taxes. The deadline for submitting comments on the proposed regulations has passed. IRS guidance addresses the following issues under this legislation:

- Which entities and individuals are subject to excise tax under the new provisions and which taxes and penalties may apply
- Who is a party subject to the new provisions, and the treatment of proceeds of transactions received before the effective date of the new provisions
- Disclosure and filing requirements

.54 Additional information is available at www.irs.gov/charities/article/0,,id=172158,00.html.

Certain Charitable Contributions Designated as Transactions of Interest Under New Reportable Transaction Regulations

.55 In September 2007, the IRS issued Notice 2007-72, designating certain transactions as having the potential for tax avoidance or evasion and alerting participants to required disclosures and potential penalties. In the transactions, a taxpayer transfers a membership interest in a limited liability company that directly or indirectly owns real property to a Section 501(c)(3) charitable organization or government entity, claiming a charitable contribution deduction for an amount significantly higher than the original purchase price paid by the taxpayer to acquire the interest. Charitable organizations that receive property in these transactions after August 14, 2007 are participants in these transactions for the first year in which their tax returns reflect the acquired interest, which is generally the year of receipt of the interest. For that year, the charity must disclose certain information to the IRS required by the reportable transaction regulations or be subject to penalties as described in the notice. The IRS has begun notifying organizations that have participated in these transactions that they have been selected for examination.

Prohibition Against Political Activities

.56 The prohibition against political campaign activity has been in effect for more than half a century and bars certain tax-exempt organizations from engaging on behalf of or in opposition to political candidates. However, these organizations can engage in advocating for or against issues and, to a limited extent, ballot initiatives or other legislative activities.

.57 "The political contests, especially for president, are starting earlier than usual. The IRS, as it has in the past, wants to remind charities and churches of the ban on political campaign activity. We also want to urge nonprofit and religious organizations to review the guidance we have issued to help them avoid any problems," said Steven T. Miller, Commissioner of IRS Tax Exempt and Government Entities Division.

.58 The IRS's goal is to educate the leadership of these organizations to help them stay within the legal boundaries. In this regard, IRS Revenue Ruling 2007-41 outlines a number of scenarios to help charities and churches understand the ban on political campaign activity and actions that may arise.

.59 In addition to the revenue ruling, the IRS has other helpful information for churches and charities on its Web site at www.irs.gov/eo. For example, IRS Publication 1828, "Tax Guide for Churches and Religious Organizations," contains a discussion of the law affecting political campaign activity by churches and religious institutions.

.60 Violation of the law can result in imposition of an excise tax or, in extreme cases, a loss of tax exempt status.

.61 In June 2007, the IRS released its report on the Political Activity Compliance Initiative (PACI) for the 2006 election cycle. This report, *PACI 2006*, follows the report on prohibited political campaign intervention in the 2004 election cycle, which was issued in February 2006.

Employment Taxes and Classifying Workers

.62 In December 2007, the IRS issued Fact Sheet (FS) 2007-27 to help organizations better understand their responsibilities regarding employment taxes and classifying workers. To access this guidance, which provides criteria to better understand the regulations, go to www.irs.gov/newsroom/article/0,,id=177092,00.html.

.63 Additionally, in November 2007, FS 2007-25 was issued, which outlines the IRS initiative regarding compliance with employer tax regulations. This initiative includes both IRS and various state workforce agencies that will work together and exchange information to improve taxpayer compliance in this complicated area.

Internet-Based Workshop for Exempt Organizations

.64 The IRS has a Web based version of its popular Exempt Organizations Workshop covering tax compliance issues confronted by small and mid-sized tax exempt organizations.

.65 The free online workshop, *Stay Exempt—Tax Basics for 501(c)(3)s*, consists of five interactive modules on tax compliance topics for exempt organizations:

- *Tax-Exempt Status*—How can you keep your 501(c)(3) exempt?
- *Unrelated Business Income*—Does your organization generate taxable income?
- *Employment Issues*—How should you treat your workers for tax purposes?
- *Form 990*—Would you like to file an error-free return?
- *Required Disclosures*—To whom do you have to show your records?

.66 Users can access this new training program at www.stayexempt.org. Users can complete the modules in any order and repeat them as many times as they like. The online training Web site does not require registration and its visitors will remain anonymous.

Resource Materials—Compliance Initiatives for Tax-Exempt Organizations

.67 The Exempt Organization Division of the IRS has made materials available that were used in or which discuss its compliance initiatives including LLC projects, community foundations, bond compliance, hospitals, and executive compensation. You can find this material at www.irs.gov/charities/article/0,,id=162493,00.html.

Listing of Published Guidance—2008

.68 Readers should be aware that the IRS Web site contains a digest of exempt organizations' published guidance issued in 2008 at www.irs.gov/charities/content/0,,id=177153,00.html. The published guidance includes treasury regulations, revenue rulings, revenue procedures and notices, and announcements of recently published issues of interest to tax-exempt organizations.

.69 Additionally, the IRS Web site also contains an archive that presents digests of IRS published guidance items of interest to tax-exempt organizations. The archived guidance can be found at www.irs.gov/charities/article/0,,id=151053,00.html.

Tax Preparer Penalties

.70 In December 2007, the IRS issued Notice 2008-13, which implements a May 2007 law that expanded the tax return preparer penalty and heightened the standards of conduct that must be met by tax return preparers in order to avoid a penalty.

.71 For undisclosed positions on a tax return, the new law replaced the *realistic possibility standard* with a requirement that there be a reasonable belief that the tax treatment of the position would more likely than not be sustained on its merits. In cases in which the taxpayer discloses the position on the tax return, the notice implements the new law that states there must be a reasonable basis for the tax treatment of the position taken on the tax return.

.72 The notice provides interim rules to implement and interpret these heightened standards. The interim rules will be in effect until the overhaul of the current return preparer penalty regulations is complete. The interim rules emphasize the importance to preparers of understanding the legal basis for positions taken on tax returns, the requirement for taxpayers to disclose certain positions, and the need for preparers to advise taxpayers on the various penalties that can apply when a position is taken on a return that may not be supported by existing law.

.73 Under the notice, preparers generally can continue to rely on taxpayer representations in preparing returns and can also generally rely on representations of third parties, unless the preparer has reason to know they are wrong.

.74 The new law also expanded the return preparer penalty to cover all tax return preparers, not just income tax return preparers. Under the notice, preparers of many information returns, however, will not be subject to the new penalty provision unless they willfully understate tax or act in reckless or intentional disregard of the law. The notice also includes examples illustrating how the new standards would apply.

.75 Notice 2008-13 also solicits input from the tax return preparer community on a planned overhaul of the tax return preparer penalty regime anticipated to be completed by the end of 2008. The notice can be found at www.irs.gov/pub/irs-drop/n-08-13.pdf.

.76 In addition to Notice 2008-13, additional guidance has been provided in Notice 2008-12 with respect to the implementation of the tax return preparer signature requirement, and in Notice 2008-11, which clarifies the transition relief provided in Notice 2007-54, issued earlier this year.

Uniform Prudent Management of Institutional Funds Act

.77 In February 2008, the Financial Accounting Standards Board (FASB) released for public comment proposed FASB Staff Position (FSP) FAS 117-a, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*, *and Enhanced Disclosures*. If approved as proposed, the FSP would

- provide guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). (As of February 1, 2008, 13 states and the District of Columbia had enacted a version of UPMIFA, with legislation pending in several other states.)

- improve disclosures about an organization's endowment funds (both donor-restricted and funds functioning as endowment), whether or not the organization is subject to UPMIFA.

.78 The FSP would be effective for fiscal years ending after June 15, 2008, with earlier application permitted.

.79 The first, and perhaps most significant question the proposed FSP addresses is how UPMIFA's elimination of the historic-dollar-value threshold—the amount below which an organization could not spend under the Uniform Management of Institutional Funds Act (UMIFA)—affects net asset classification. The proposed FSP would require an organization to classify a portion of a donor-restricted endowment fund (other than a term endowment) as permanently restricted net assets. That portion would be equal to the amount of the fund (*a*) that must be retained permanently in accordance with explicit donor stipulations, or (*b*) that in the absence of such stipulations, the organization's governing board determines must be retained permanently, if any, under the relevant law. The organization would be required to disclose its interpretation of the law. We anticipate that discussions among organizations, accountants, attorneys, and regulators in the various individual states may lead to consensus in those states determining what must be retained permanently under the law. If a governing board determines that the law requires maintenance of purchasing power of a donor's gift, the organization would increase permanently restricted net assets to the extent that the purchasing power of a dollar decreases or decrease permanently restricted net assets to the extent that the purchasing power of a dollar increases. (This would typically be done by adjusting permanently restricted net assets by an appropriate inflationary factor, such as the consumer price index [CPI] or higher education price index [HEPI].)

.80 In contrast, an organization would not subsequently decrease permanently restricted net assets because of investment losses or organizational spending from the endowment, but would instead decrease temporarily restricted net assets, if available, or unrestricted net assets. The guidance on investment losses and spending is consistent with the guidance previously provided on investment losses in FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, paragraph 12. FASB considered but decided not to change that guidance, noting that permanently restricted net assets should reflect the amount for which an organization has a permanent fiduciary duty and not the amount that it has on hand at a financial statement date because of cumulative investment and spending decisions.

.81 The proposed FSP also addresses whether two other provisions in UPMIFA's endowment spending guidelines impose temporary (time) restrictions on the portion of a donor-restricted endowment fund that would otherwise be considered unrestricted net assets:

- A provision that "[u]nless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution"
- An optional provision for a rebuttable presumption that spending more than 7 percent of endowment market value is imprudent (Some states have included this provision, while others have not.)

.82 The FSP would require organizations to apply the guidance previously provided in Emerging Issues Task Force (EITF) Topic No. D-49, "Classifying Net Appreciation on Investments of a Donor-Restricted Endowment Fund," included as an appendix to the FSP. EITF Topic No. D-49 stresses that not all legal restrictions on the use of particular assets result in restricted net assets for accounting purposes, only those that extend donor restrictions. An example of the latter would be a requirement to maintain the purchasing power of a donor's endowment gift. Laws that refer to actions entirely within the purview of a governing board, such as acting to appropriate funds or exercising prudence do not, in and of themselves, extend donor imposed restrictions. The FSP contains the important caveat that, in applying the guidance in EITF Topic No. D-49, an organization would need to look at the actual wording in the specific version of UPMIFA (and other relevant law) to which the organization is subject.

.83 The other key provisions of the proposed FSP focus on improving endowment disclosures, both donor restricted and board designated. Aiming to improve transparency about endowments in an era of increased public scrutiny, the proposed FSP focuses on disclosures in four areas:

- Net asset classification (especially how that is affected by a governing board's interpretation of relevant law)
- Spending policies
- Investment policies (especially their relationship with spending policies)
- Net asset composition and changes therein (especially the relationship of endowment spending to endowment size and growth)

.84 Auditors should look for a final FSP in June 2008.

New Filing and Audit Requirements for ERISA-Covered 403(b) Employee Benefit Plans

.85 Beginning in 2009, employee benefit plans sponsored by charitable organizations and schools under IRC Section 403(b) and covered under the Employee Retirement Income Security Act (ERISA) will be subject to the same reporting and audit requirements that currently exist for Section 401(k) plans. Section 403(b) plans are also commonly known as *tax-shelter annuity plans*. Under new U.S. DOL regulations issued in November 2007 amending the filing requirements for Form 5500, *Annual Return/Report of Employee Benefit Plan*, ERISA-covered 403(b) plans with 100 or more participants generally will be required to file audited financial statements beginning with their 2009 Form 5500 filing. 403(b) plans with fewer than 100 participants will be eligible to use abbreviated reporting forms without audited financial statements. The DOL estimates that approximately 7,000 403(b) plans will be subject to the new audit requirements and another 9,000 403(b) plans will be eligible for the waiver. The DOL regulations were published in the November 16, 2007 *Federal Register* and are available at www.dol.gov/ebsa/regs/fedreg/final/20071116.pdf. The AICPA's Employee Benefit Plan Audit Quality Center (EBPAQC) (www.aicpa.org/EBPAQC) and Expert Panel have formed a joint task force to develop resources to help members with these new audit requirements.

Other Regulatory Activities

.86 Listed below are links to documents of interest for not-for-profit organizations not discussed elsewhere in this alert. Readers should continue to monitor all activity involving the not-for-profit sector:

- *U.S. Department of the Treasury Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities* at www.ustreas.gov/offices/enforcement/key-issues/protecting/charities-intro.shtml. This link also contains the Treasury's response to comments submitted on the original guidelines. The Treasury has also issued a risk matrix to further assist in understanding and implementing these guidelines. The matrix can be found at www.ustreas.gov/offices/enforcement/ofac/policy/charity_risk_matrix.pdf.
- Political Activity and Disclosure Requirements (March 2006) Congressional Research Library Report RL-33377 at www.ncseonline.org/NLE/CRSreports/06May/RL33377.pdf.
- *Tax Relief and Health Care Act of 2006* (December 20, 2006) at www.thomas.gov/cgi-bin/query/z?c109:H.R.6111.ENR:, which contains provisions regarding the tax-exempt status of charitable remainder trusts in relation to unrelated business taxable income.
- IRS Charitable Rollover Clarification by the IRS (January 2007) Notice 2007-05 www.irs.gov/irb/2007-05_IRB/ar11.html. There is also guidance on other provisions of the *Pension Protection Act of 2006*.
- The *Honest Leadership and Open Government Act of 2007* (September 2007) requires disclosures related to lobbying and earmarks. The full text of the bill can be found at www.thomas.gov/cgi-bin/bdquery/z?d110:s.00001:.

Audit and Attestation Issues and Developments

Guidance on Alternative Investments, Such as Hedge Funds and Investments Related to Subprime Loans

.87 Over the past several years, certain not-for-profit organizations, healthcare entities, pension plans, and investment companies—including some hedge funds and funds of funds—have dramatically increased their investment in financial instruments that do not have a readily determinable market value. These investments are commonly referred to as alternative investments. Many entities report alternative investments at fair value; developing valuations, as well as obtaining sufficient appropriate audit evidence in support of the valuation assertion, can present challenges because of the lack of readily determinable fair value and the limited investment information generally provided by the fund managers. For example, the value of investments related to subprime loans (which may be either direct holdings of subprime loans or ownership of entities or investment vehicles, such as tranches, whose value is affected by the value of subprime loans) have reportedly declined significantly based on recent developments, including but not limited to decreased liquidity for such investments. However, the existence of investments related to subprime loans within an alternative investment portfolio and the basis for their valuation may not be obvious.

.88 To address the auditing challenges associated with all alternative investments, the Alternative Investments Task Force developed and issued a practice aid for auditors in 2006, *Alternative Investments—Audit Considerations*. The practice aid clarifies the responsibility of the client to have appropriate controls in place in order for management to adequately address valuation assertions and for the auditor to obtain comfort over the valuation of investments. Specifically, the practice aid includes guidance on the following:

- General considerations pertaining to auditing alternative investments
- Addressing management's financial statement existence assertion
- Addressing management's financial statement valuation assertion
- Management representations
- Disclosure of certain significant risks and uncertainties
- Reporting

.89 The practice aid also includes appendixes on confirmations for alternative investments and illustrative examples of due diligence, ongoing monitoring, and financial reporting controls.

.90 Download the document from: www.aicpa.org/members/div/auditstd/alternative_investments.htm.

.91 Many of the elements of the practice aid may assist auditors in addressing the audit issues related to recent market developments including subprime related matters.

.92 In addition, auditors should consider AU section 560, *Subsequent Events* (AICPA, *Professional Standards*, vol. 1), to determine the appropriate period in which to recognize any identified declines in value. Due to current market conditions, even the financial statements of organizations that do not hold alternative investments may suffer significant declines that merit application of the guidance in AU section 560.

Bond Insurance Company Issues

.93 The current credit environment has affected the market for debt securities. For example, several entities that insure tax exempt debt have been downgraded by rating agencies and some investors have avoided certain debt securities. While each situation is different and should be evaluated based on its own specific facts and circumstances, the current situation may raise various accounting and auditing issues pertaining to tax exempt debt, including, but not limited to, the following:

- Bond restructurings
- Derivative and hedge accounting implications
- Potential violation of debt covenants
- Classification of the debt on the balance sheet as either a current or noncurrent liability
- Subsequent event disclosures
- Going concern issues

.94 At the time this alert went to press, an ad hoc AICPA task force was drafting a nonauthoritative article to address these issues in more detail. When completed, that article will be posted at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+Standards/expertpanel_notforprofit.htm.

Summary of Recent Auditing and Attestation Pronouncements and Related Guidance

.95 Presented in the following table is a list of recently issued auditing and attestation pronouncements and related guidance. For information on auditing and attestation standards issued subsequent to the writing of this alert, please refer to the AICPA Web site at www.aicpa.org/Professional+Resources/Accounting+and+Auditing. You may also look for announcements of newly issued standards in the *CPA Letter*, *Journal of Accountancy*, and in the quarterly electronic newsletter *In Our Opinion*, issued by the AICPA Auditing Standards team, available at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Opinion. As a reminder, AICPA auditing and attestation standards are applicable only to audits and attestation engagements of nonissuers.

Recent Auditing and Attestation Pronouncements and Related Guidance

SAS No. 114, *The Auditor's Communication With Those Charged With Governance* (AICPA, *Professional Standards*, vol. 1, AU sec. 380) Issue Date: December 2006 (Applicable to audits conducted in accordance with generally accepted auditing standards [GAAS])	This standard supersedes SAS No. 61, *Communication With Audit Committees*. The standard requires the auditor to conduct two-way communication with those charged with governance about certain significant matters related to the audit and also establishes standards and provides guidance on which matters should be communicated, who they should be communicated to, and the form and timing of the communication. It is effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS No. 113, *Omnibus Statement on Auditing Standards—2006* (AICPA, *Professional Standards*, vol. 1) Issue Date: November 2006 (Applicable to audits conducted in accordance with GAAS)	This standard does the following: • Revises the terminology used in the 10 standards of SAS No. 95, *Generally Accepted Auditing Standards*, to reflect terminology in SAS No. 102, *Defining Professional Requirements in Statements on Auditing Standards* (AICPA, *Professional Standards*, vol. 1, AU sec. 120). • Adds a footnote to the headings before paragraphs 35 and 46 in SAS No. 99, *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 316), to provide a clear link between the auditor's consideration of fraud and the auditor's assessment of risk and the auditor's procedures in response to those assessed risks.

Recent Auditing and Attestation Pronouncements and Related Guidance—continued

	• Replaces throughout the SASs the term *completion of fieldwork* with the term *date of the auditor's report.* • Changes the convention for dating the representation letter by requiring that it be dated as of the date of the auditor's report.
SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 325) Issue date: May 2006 (Applicable to audits conducted in accordance with GAAS)	This standard supersedes SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit*. It establishes requirements and provides extensive guidance about communicating matters related to an entity's internal control over financial reporting identified while performing an audit of financial statements. SAS No. 112 also requires that certain communications be in writing. It is effective for periods ending on or after December 15, 2006.
SAS Nos. 104–111, the risk assessment standards Issue Date: March 2006 (Applicable to audits conducted in accordance with GAAS)	See the "AICPA Risk Assessment Standards" section in this alert.
Statement on Standards for Attestation Engagements (SSAE) No. 14, *SSAE Hierarchy* (AICPA, *Professional Standards*, vol. 1, AT sec. 50) Issue Date: November 2006	This SSAE identifies the body of attestation literature, clarifies the authority of attestation publications issued by the AICPA and others, specifies the extent of familiarity a practitioner needs to have with various kinds of attestation publications when conducting an attestation engagement, and amends the 11 attestation standards to reflect the terminology used in SSAE No. 13, *Defining Professional Requirements in Statements on Standards for Attestation Engagements* (AICPA, *Professional Standards*, vol. 1, AT sec. 20). It is effective when the subject matter or assertion is as of or for a period ending on or after December 15, 2006.

(continued)

Recent Auditing and Attestation Pronouncements and Related Guidance—continued

Interpretation No. 1, "Communicating Deficiencies in Internal Control Over Compliance in an Office of Management and Budget (OMB) Circular A-133 Audit" (AICPA, *Professional Standards*, vol. 1, AU sec. 9325 par. .01–.04), of AU section 325, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, vol. 1) Issue Date: July 2007 (Interpretive publication)	This auditing interpretation interprets AU section 325, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, vol. 1), and addresses how the definitions of the terms *control deficiency*, *significant deficiency*, and *material weakness* should be adapted and applied in the context of reporting on internal control over compliance in a single audit.
Interpretation No. 1, "Use of Electronic Confirmations" (AICPA, *Professional Standards*, vol. 1, AU sec. 9330 par. .01–.06), of AU section 330, *The Confirmation Process* (AICPA, *Professional Standards*, vol. 1) Issue Date: March 2007 (Interpretive publication)	This auditing interpretation interprets AU section 330, *The Confirmation Process* (AICPA, *Professional Standards*, vol. 1), and addresses the issue of electronic confirmations.
Statement of Position (SOP) 07-2, *Attestation Engagements That Address Specified Compliance Control Objectives and Related Controls at Entities That Provide Services to Investment Companies, Investment Advisors, or Other Service Providers* (AICPA, *Technical Practice Aids,* AUD sec. 14,430) Issue Date: October 2007 (Interpretive publication)	This statement addresses the application of SSAEs primarily to examination engagements in which a practitioner reports on the suitability of the design and operating effectiveness of a service provider's controls in achieving specified compliance control objectives. Examples of the service providers addressed by this SOP are investment advisers, custodians, transfer agents, administrators, and principal underwriters that provide services to investment companies, investment advisers, or other service providers.
AICPA Technical Practice Aid (TPA) Technical Questions and Answers (TIS) section 9100.06, "The Effect of Obtaining the Management Representation Letter on Dating the Auditor's Report" (AICPA, *Technical Practice Aids*) Issue Date: May 2007 (Nonauthoritative)	This question and answer discusses whether the auditor is required to have the signed management representation letter in hand as of the date of the auditor's report. The question and answer indicates that although the auditor need not be in physical receipt of the representation letter on the date of the auditor's report, management will

Recent Auditing and Attestation Pronouncements and Related Guidance—continued	
	need to have reviewed the final representation letter and, at a minimum, have orally confirmed that they will sign the representation letter, without exception, on or before the date of the representations.
TIS section 8350.01, "Current Year Audit Documentation Contained in the Permanent File" (AICPA, *Technical Practice Aids*) Issue Date: May 2007 (Nonauthoritative)	This question and answer discusses whether the provisions of SAS No. 103, *Audit Documentation* (AICPA, *Professional Standards*, vol. 1, AU sec. 339), related to documentation completion and retention, apply to current year audit documentation maintained in the permanent file. The question and answer indicates that SAS No. 103 does apply to current year audit documentation maintained in a permanent file, or, for that matter, maintained in any type of file, if the documentation serves as support for the current year's audit report.
AICPA Professional Issues Task Force (PITF) Practice Alert (PA) 03-1, *Audit Confirmations* (AICPA, *Technical Practice Aids*, PA sec. 16,240) Revised: June 2007 (Nonauthoritative)	This practice aid is a response to practitioner's current concerns about audit confirmations and includes discussion of improving confirmation response rates, negative versus positive confirmation requests, nonresponses to positive confirmations, responses to positive confirmation requests indicating exception, and use of electronic confirmations among other topics.
AICPA PITF PA 07-1, *Dating of the Auditor's Report and Related Practical Guidance* (AICPA, *Technical Practice Aids*, PA sec. 16,290) Issue Date: January 2007 (Nonauthoritative)	This practice aid provides guidance regarding application of certain provisions of SAS No. 103, primarily related to dating the auditor's report.

The Auditor's Communication With Those Charged With Governance

.96 In December 2006, the Auditing Standards Board (ASB) issued SAS No. 114, *The Auditor's Communication With Those Charged With Governance* (AICPA, *Professional Standards*, vol. 1, AU sec. 380), which supersedes SAS No. 61, *Communication With Audit Committees*. This SAS establishes standards and provides guidance to auditors on matters required to be communicated with those charged with governance in relation to an audit of financial statements and became effective for audits of financial statements for periods beginning on or after December 15, 2006. SAS No. 61 established communication requirements applicable to entities that either have an audit committee or have otherwise formally designated oversight of the financial reporting process to a group equivalent to an audit committee. However, SAS No. 114 broadens the applicability of the SAS to audits of the financial statements of all nonissuers regardless of size, ownership, or organizational structure.

.97 SAS No. 114 provides a framework for the auditor's communication with those charged with governance and identifies specific matters to be communicated, many of which are generally consistent with the requirements in SAS No. 61. However, SAS No. 114 does include certain additional matters to be communicated and provides additional guidance on the communication process. Among other matters, SAS No. 114 adds requirements to communicate an overview of the planned scope and timing of the audit. It also requires that significant matters communicated with those charged with governance be documented.

Identifying Those Charged With Governance

.98 The SAS uses the term *those charged with governance* to refer to those with responsibility for overseeing the strategic direction of the organization and obligations related to the accountability of the organization, including overseeing the organization's financial reporting process. The SAS uses the term *management* to refer to those who are responsible for achieving the objectives of the enterprise and who have the authority to establish policies and make decisions by which those objectives are to be pursued.

.99 The auditor should determine the appropriate person(s) within the organization's governance structure with whom to communicate. The appropriate person(s) may vary depending on the matter to be communicated. Governance structures vary by organization, reflecting influences such as size and ownership characteristics.

.100 Because there is such diversity, it is not possible for SAS No. 114 to specify for all audits the person(s) with whom the auditor is to communicate particular matters. Furthermore, in some cases the appropriate person(s) with whom to communicate may not be clearly identifiable from the engagement circumstances, for example, entities where the governance structure is not formally defined, such as some family-owned entities, some not-for-profit organizations, and some government entities. The auditor's understanding of the organization's governance structure and processes obtained in accordance with SAS No. 109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AICPA, *Professional Standards*, vol. 1, AU sec. 314), is relevant in deciding with whom to communicate matters. When the appropriate person(s) with whom to communicate are not clearly identifiable, the auditor and the engaging party should agree on the relevant person(s) within the organization's governance structure with whom the auditor will communicate.

Communicating Internal Control Related Matters Identified in an Audit

.101 The ASB issued SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 325), which became effective for audits of financial statements for periods ending on or after December 15, 2006. SAS No. 112 establishes standards and provides guidance on communicating matters related to an organization's internal control over financial reporting (internal control) identified in an audit of financial statements. SAS No. 112 supersedes SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit*, as amended. This SAS is applicable whenever an auditor expresses an opinion on financial statements (including a disclaimer of opinion). Among other things, SAS No. 112 does the following:

- Requires the auditor to communicate control deficiencies that are *significant deficiencies* or *material weaknesses* in internal control. The terms are defined in the SAS. The term *reportable condition* is no longer used. When SAS No. 112 was issued, the terms *significant deficiencies* and *material weaknesses* were consistent with PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*. However, with the adoption of PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Standards"), the PCAOB redefined these terms, which now differ from SAS No. 112.
- Provides guidance on evaluating the severity of control deficiencies identified in an audit of financial statements and requires that the auditor conclude whether prudent officials, having knowledge of the same facts and circumstances, would agree with the auditor's classification of the deficiency.
- Identifies areas in which control deficiencies ordinarily are to be evaluated as at least significant deficiencies, and identifies indicators that control deficiencies should be regarded as at least a significant deficiency and a strong indicator of a material weakness.
- Requires the auditor to communicate significant deficiencies and material weaknesses identified in the audit, in writing, to management and those charged with governance. This also includes significant deficiencies and material weaknesses that were communicated in previous audits if they have not been remediated.
- Indicates that the communication must be in writing and is best made by the report release date (the date on which the auditor grants permission for the client to use the auditor's report in connection with the financial statements), but should be made no later than 60 days following the *report release date*.
- Contains illustrative written communications to management and those charged with governance.

Discussions With Management and Others

.102 The requirements of SAS No. 112 have changed perceptions regarding the auditor's role in the client's internal control in some circumstances. Auditors may have to continue to explain to clients that the auditor *cannot* be a part of their internal control. Only the client—not the auditor—can correct control deficiencies. However, a CPA firm, other than the auditor, that does not provide attest services for the client can be part of a client's internal control.

This may continue to raise questions regarding the role of outsourcing in achieving management's internal control objectives.

.103 Auditors may be called upon to hold discussions with management and other users of the auditor's written communication, such as regulators, to explain why the nature and extent of the internal control matters communicated to management and those charged with governance are different from the matters communicated in prior years. One reason is that the criteria have changed because of the introduction of the term *significant deficiencies* and its definition as well as a new definition of material weaknesses. Another reason is that auditors have to include in written communication significant deficiencies and material weaknesses that were identified and communicated in previous years, for as long as these deficiencies have not been remediated. Auditors may need to explain to management and other users that the auditors are required to inform them of the significant deficiencies and material weaknesses every year as long as those deficiencies still exist.

.104 Auditors may also need to hold discussions with management and other users who ask how the auditors were able to express an unqualified opinion on the financial statements when material weaknesses in internal control were present. Auditors may wish to explain that the audit was designed to provide reasonable assurance that the financial statements are free from material misstatements. Internal control should be designed to prevent or detect material misstatements. As previously stated, the auditor cannot be part of a client's internal control system. Auditors can express an unqualified opinion on the financial statements even though material weaknesses in internal control are present because sufficient procedures were performed and appropriate audit evidence was obtained to afford reasonable assurance that the financial statements are free from material misstatement. However, these procedures do not *correct or remediate* control deficiencies; the deficiencies in internal control could still result in a material misstatement not being prevented or detected and corrected, by the client.

Issues for Audits of Smaller Entities

.105 An issue that has caused concern is the extent to which the auditor may be involved in the drafting of an organization's financial statements. It is a strong indication of material weakness in internal control if a client has ineffective controls over the preparation of its financial statements such that client controls are absent or controls are not effective in preventing, or detecting and correcting, material misstatements in the preparation of financial statements, including the related notes. Although the auditor can propose adjustments and assist in assembling or drafting the financial statements, the auditor cannot establish or maintain the client's controls, including monitoring ongoing activities, because doing so would impair independence.[2] How an auditor responds to a client's internal control weakness, in terms of designing and carrying out auditing procedures, does not affect or mitigate a client's internal control weakness. Just as an auditor's response to detection risk is independent of the client's control risk, so too the auditors response to a client's control weakness by assisting in drafting the financial statements does not change that control weakness.

[2] See Ethics Ruling 101-3, "Performance of nonattest services," of the AICPA Code of Professional Conduct (AICPA, *Professional Standards*, vol. 2, ET sec. 101 par. .05).

.106 The requirements of SAS No. 112 will continue to introduce possible opportunities for auditors. Auditors can help clients evaluate the cost-benefit implications of improving their internal control, including training their personnel to be more knowledgeable. Auditors can also teach clients how to develop a risk assessment approach to designing internal control. Readers should also note that the Internal Control Task Force of the ASB is revising SAS No. 112 in response to the adoption of PCAOB Auditing Standard No. 5 and International Standards on Auditing.

.107 The AICPA published Audit Risk Alert *Understanding SAS No. 112 and Evaluating Control Deficiencies* (product no. 022536kk) to assist in understanding the requirements of this SAS. This Audit Risk Alert provides specific case studies to help determine whether identified control weaknesses would constitute a significant deficiency or material weakness; it can be obtained by calling the AICPA at (888) 777-7077 or visiting www.cpa2biz.com.

AICPA Risk Assessment Standards

.108 The 8 SASs referred to as the risk assessment standards (SAS Nos. 104–111) became effective for audits of financial statements for periods beginning on or after December 15, 2006, (earlier application was permitted), which means they are effective for 2007 calendar year audits. Although the SASs include many of the underlying concepts and detailed performance requirements contained in the standards they amend or supersede, they do create significant new requirements for the auditor. The risk assessment standards provide extensive guidance on how to apply the audit risk model when planning and performing financial statement audits, focusing on identifying and assessing the risks of material misstatements, further designing and performing tailored audit procedures in response to the assessed risks at relevant assertion levels, and improving the linkage between the risks, controls, audit procedures, and conclusions.

Key Provisions of the Risk Assessment Standards

.109 The following tables list the key provisions of the eight risk assessment standards and provide summaries of how these standards differ from previous AICPA generally accepted auditing standards (GAAS).

SAS No. 104, *Amendment to Statement on Auditing Standards No. 1*, Codification of Auditing Standards and Procedures ("Due Professional Care in the Performance of Work")

Key Provisions	*How the SAS Differs From Current Standards*
• SAS No. 104 defines *reasonable assurance* as a "high level of assurance."	• SAS No. 104 clarifies the meaning of reasonable assurance.

SAS No. 105, *Amendment to Statement on Auditing Standards No. 95*, Generally Accepted Auditing Standards

Key Provisions	*How the SAS Differs From Current Standards*
• SAS No. 105 expands the scope of the understanding that the auditor must obtain in the second standard of field work from "internal control" to "the entity and its environment, including its internal control." • Previous guidance considered the understanding of the entity to be a part of audit planning, and emphasized that the understanding of internal control also was primarily part of audit planning.	• Previous guidance considered the understanding of the entity to be a part of audit planning, and emphasized that the understanding of internal control also was primarily part of audit planning. • By stating that the purpose of your understanding of the entity and its internal control is part of assessing the risk of material misstatement, SAS No. 105 essentially considers this understanding to provide audit evidence that ultimately supports your opinion on the financial statements. • The new standard emphasizes the link between understanding the entity, assessing risks, and the design of further audit procedures. It is anticipated that "generic" audit programs will not be an appropriate response for all engagements because risks vary between entities. • The term *further audit procedures*, which consists of test of controls and substantive tests, replaces the term *tests to be performed* in recognition that risk assessment procedures are also performed. • The term *audit evidence* replaces the term *evidential matter*.

SAS No. 106, *Audit Evidence*

Key Provisions	*How the SAS Differs From Current Standards*
• SAS No. 106 defines *audit evidence* as "all the information used by the auditor in arriving at the conclusions on which the audit opinion is based."	• Previous guidance did not define audit evidence. • SAS No. 106 also describes basic concepts of audit evidence. • The term *sufficient, appropriate audit evidence*, defined in SAS No. 106, replaces the term *sufficient, competent evidence.*
• SAS No. 106 recategorizes assertions by classes of transactions, account balances, and presentation and disclosure; expands the guidance related to presentation and disclosure; and describes how the auditor uses relevant assertions to assess risk and design audit procedures.	• SAS No. 106 recategorizes assertions to add clarity. • *Assertion relating to presentation and disclosure* has been expanded and includes a new assertion that information in disclosures should be "expressed clearly" (understandability).
• SAS No. 106 defines *relevant assertions* as those assertions that have a meaningful bearing on whether the account is fairly stated.	• The term *relevant assertions* is new, and it is used repeatedly throughout SAS No. 106.
• SAS No. 106 provides additional guidance on the reliability of various kinds of audit evidence.	• The previous standard included a discussion of the competence of evidential matter and how different types of audit evidence may provide more or less valid evidence. SAS No. 106 expands on this guidance.
• SAS No. 106 identifies *risk assessment procedures* as audit procedures performed on all audits to obtain an understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement at the financial statement and relevant assertion levels.	• SAS No. 106 introduces the concept of risk assessment procedures, which are necessary to provide a basis for assessing the risk of material misstatement. The results of risk assessment procedures, along with the results of further audit procedures, provide audit evidence that ultimately support the auditor's opinion on the financial statements.

Key Provisions	*How the SAS Differs From Current Standards*
• SAS No. 106 provides that evidence obtained by performing risk assessment procedures, as well as that obtained by performing tests of controls and substantive procedures, is part of the evidence the auditor obtains to draw reasonable conclusions on which to base the audit opinion, although such evidence is not sufficient in and of itself to support the audit opinion.	
• SAS No. 106 describes the types of audit procedures that the auditor may use alone or in combination as risk assessment procedures, tests of controls, or substantive procedures, depending on the context in which they are applied by the auditor.	• Risk assessment procedures include — inquiries of management and others within the entity. — analytical procedures. — observation and inspection.
• SAS No. 106 includes guidance on the uses and limitations of inquiry as an audit procedure.	• Inquiry alone is not sufficient to evaluate the design of internal control and to determine whether it has been implemented.

SAS No. 107, *Audit Risk and Materiality in Conducting an Audit*

Key Provisions	*How the SAS Differs From Current Standards*
• The auditor must consider audit risk and must determine a materiality level for the financial statements taken as a whole for the purpose of 1. determining the extent and nature of risk assessment procedures. 2. identifying and assessing the risk of material misstatement. 3. determining the nature, timing, and extent of further audit procedures. 4. evaluating whether the financial statements taken as a whole are presented fairly, in conformity with generally accepted accounting principles.	• Previous guidance said that auditors "should consider" audit risk and materiality for certain specified purposes. SASs state that the auditor "must" consider. • New guidance explicitly states that audit risk and materiality are used to identify and assess the risk of material misstatement.
• Combined assessment of inherent and control *risks* is termed the *risk of material misstatement*.	• SAS No. 107 consistently uses the term *risks of material misstatement*, which often is described as a combined assessment of inherent and control risk. However, auditors may make separate assessment of inherent risk and control risks.
• The auditor should assess the risk of material misstatement as a basis for further audit procedures. Although that risk assessment is a judgment rather than a precise measurement of risk, the auditor should have an appropriate basis for that assessment. • Assessed risks and the basis for those assessments should be documented.	• SAS No. 107 states that the auditor should have and document an appropriate basis for the audit approach. • These two provisions of the risk assessment standards effectively eliminate the ability of the auditor to assess control risk "at the maximum" without having a basis for that assessment. In other words, you can no longer "default" to maximum control risk.

Key Provisions	*How the SAS Differs From Current Standards*
• The auditor must accumulate all known and likely misstatements identified during the audit, other than those that the auditor believes are trivial, and communicate them to the appropriate level of management.	• SAS No. 107 provides additional guidance on communicating misstatements to management. • The concept of not accumulating misstatements below a certain threshold is included in the previous standards, but SAS No. 107 provides additional, specific guidance on how to determine this threshold.
• The auditor should request management to respond appropriately when misstatements (known or likely) are identified during the audit.	• SAS No. 107 provides specific guidance regarding the appropriate auditor's responses to the types of misstatements (known or likely) identified by the auditor.

SAS No. 108, *Planning and Supervision*

Key Provisions	*How the SAS Differs From Current Standards*
• SAS No. 108 provides guidance on — appointment of the independent auditor. — establishing an understanding with the client. — preliminary engagement activities. — the overall audit strategy. — the audit plan. — determining the extent of involvement of professionals possessing specialized skills. — using a professional possessing IT skills to understand the effect of IT on the audit. — additional considerations in initial audit engagements. — supervision of assistants.	• Much of the guidance provided in SAS No. 108 has been consolidated from several existing standards. • However, SAS No. 108 provides new guidance on preliminary engagement activities, including the development of an overall audit strategy and an audit plan. — The overall audit strategy is what previously was commonly referred to as the audit approach. It is a broad approach to how the audit will be conducted, considering factors such as the scope of the engagement, deadlines for performing the audit and issuing the report, and recent financial reporting developments. — The audit plan is more detailed than the audit strategy and is commonly referred to as the audit program. The audit plan describes in detail the nature, timing, and extent of risk assessment and further audit procedures you perform in an audit. • SAS No. 108 states that you should obtain a written understanding with your client.

SAS No. 109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

Key Provisions	*How the SAS Differs From Current Standards*
• SAS No. 109 describes audit procedures that the auditor should perform to obtain the understanding of the entity and its environment, including its internal control.	• The auditor should perform *risk assessment procedures* to gather information and gain an understanding of the entity and its environment. These procedures include inquiries, observation, inspection, and analytical procedures. Previous standards did not describe the procedures that should be performed to gain an understanding of the client. • Information about the entity may be provided by a variety of sources, including knowledge about the entity gathered in previous audits (provided certain conditions are met), and the results of client acceptance and continuance procedures. • SAS No. 109 also directs the auditor to perform a variety of risk assessment procedures, and it describes the limitations of inquiry.
• The audit team should discuss the susceptibility of the entity's financial statements to material misstatement.	• Previous standards did not require a "brainstorming" session to discuss the risk of material misstatements. SAS No. 109 requires such a brainstorming session, which is similar (and may be performed together with) the brainstorming session to discuss fraud.
• The purpose of obtaining an understanding of the entity and its environment, including its internal control, is to identify and assess "the risk of material misstatement" and design and perform further audit procedures responsive to the assessed risk.	• SAS No. 109 directly links the understanding of the entity and its internal control with the assessment of risk and design of further audit procedures. Thus, the understanding of the entity and its environment, including its internal control, provides the audit evidence necessary to support the auditor's assessment of risk.

(continued)

Key Provisions	*How the SAS Differs From Current Standards*
• SAS No. 109 states the auditor should assess the risk of material misstatement at both the financial statement and relevant assertion levels.	• The previous standard included the concept of assessing risk at the financial statement level, but SAS No. 109 provides expanded and more explicit guidance. • SAS No. 109 also directs the auditor to determine how risks at the financial statement level may result in risks at the assertion level.
• SAS No. 109 provides directions on how to evaluate the design of the entity's controls and determine whether the controls are adequate and have been implemented.	• Under the previous standard, the primary purpose of gaining an understanding of internal control was to plan the audit. Under SAS No. 109, your understanding of internal control is used to assess risks. Thus, the understanding of internal control provides audit evidence that ultimately supports the auditor's opinion on the financial statements. • The previous standard directs the auditor to obtain an understanding of internal control as part of obtaining an understanding of the entity and its environment. SAS No. 109 requires auditors to evaluate the design of controls and determine whether they been implemented. Evaluating the design of a control involves considering whether the control, individually or in combination with other controls, is capable of effectively preventing or detecting and correcting material misstatements. It is anticipated that this phase of the audit will require more work than simply gaining understanding of internal control.
• SAS No. 109 directs the auditor to consider whether any of the assessed risks are significant risks that require special audit consideration or risks for which substantive procedures alone do not provide sufficient appropriate audit evidence.	• Previous standard did not include the concept of "significant risks." • Significant risks exist on most engagements. • The auditor should gain an understanding of internal control and also perform substantive procedures for all identified significant risks. Substantive analytical procedures alone are not sufficient to test significant risks.

Key Provisions	*How the SAS Differs From Current Standards*
• SAS No. 109 provides extensive guidance on the matters that should be documented.	• The guidance provided by SAS No. 109 relating to documentation is significantly greater than that provided by previous standards.

SAS No. 110, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*

Key Provisions	*How the SAS Differs From Current Standards*
• SAS No. 110 provides guidance on determining overall responses to address the risk of material misstatement at the financial statement level and the nature of those responses.	• The concept of addressing the risk of material misstatement at the financial statement level and developing an appropriate overall response is similar to the requirement in previous standards relating to the consideration of audit risk at the financial statement level. However, that guidance was placed in the context of audit planning. SAS No. 110 "repositions" your consideration of risk at the financial statement level so you make this assessment as a result of and in conjunction with your performance of risk assessment procedures. In some cases, this assessment may not be able to be made during audit planning. • SAS No. 110 requires you to consider how your assessment of risks at the financial statement level affect individual financial statement assertions, so that you may design and perform tailored further audit procedures (substantive tests or tests of controls). • The list of possible overall responses to the risk of material misstatement at the financial statement level also has been expanded.
• Further audit procedures, which may include tests of controls, or substantive procedures should be responsive to the assessed risk of material misstatement at the relevant assertion level.	• Although the previous standards included the concept that audit procedures should be responsive to assessed risks, this idea was embedded in the discussion of the audit risk model. The SASs repeatedly emphasize the need to provide a clear linkage between the auditor's understanding of the entity, the auditor's risk assessments, and the design of further audit procedures. • SAS No. 110 requires you to document the linkage between assessed risks and further audit procedures, which was not a requirement under the previous standards.

<table>
<tr><th>Key Provisions</th><th>How the SAS Differs From Current Standards</th></tr>
<tr><td>• SAS No. 110 provides guidance on matters the auditor should consider in determining the nature, timing, and extent of such audit procedures.</td><td>• The new guidance on determining the nature, timing, and extent of tests of controls and substantive tests has been expanded greatly and addresses issues that previously were not included in the authoritative literature.
• SAS No. 110 states that the nature of further audit procedures is of most importance in responding to your assessed risk of material misstatement. That is, increasing the extent of your audit procedures will not compensate for procedures that do not address the specifically identified risks of misstatement.
• SAS No. 110 states that you should perform certain substantive procedures on all engagements. These procedures include:
— performing substantive tests for all relevant assertions related to each material class of transactions, account balance, and disclosure regardless of the assessment of the risk of material misstatements.
— agreeing the financial statements, including their accompanying notes, to the underlying accounting records.
— examining material journal entries and other adjustments made during the course of preparing the financial statements.</td></tr>
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SAS No. 111, *Amendment to Statement on Auditing Standards No. 39,* Audit Sampling

Key Provisions	***How the SAS Differs From Current Standards***
• SAS No. 111 provides guidance relating to the auditor's judgment about establishing tolerable misstatement for a specific audit procedure and on the application of sampling to tests of controls.	• SAS No. 111 provides enhanced guidance on tolerable misstatement. In general, tolerable misstatement in an account should be less than materiality to allow for aggregation in final assessment. • SAS No. 111 revises AU section 350, *Audit Sampling* (AICPA, *Professional Standards*, vol. 1), to state that sample sizes determined using either statistical or nonstatistical methods would ordinarily be comparable in size.

.110 Whether due to error or fraud, the risk assessment standards require the auditor to understand and respond to the risks of material misstatement. That understanding should identify risks that may lead to a material misstatement in the client's financial statements and any mitigating controls in place. The risk assessment standards place an even greater emphasis on the understanding and testing of internal control. Auditors may no longer simply default to a maximum control risk. Although this does not mean auditors are required to test and rely on controls as part of their audit strategy, they should assess how all five components of internal control over financial reporting relate to the client that they are auditing (see the Committee on Sponsoring Organizations of the Treadway Commission's framework at www.coso.org/key.htm). These standards may significantly affect the formality of the auditor's risk assessment and documentation and may vary greatly from what auditors have previously done. Implementation of the SASs should have already been completed and has likely resulted in significant changes to firm audit methodologies and personnel training.

.111 The AICPA issued Audit Risk Alert *Understanding the New Auditing Standards Related to Risk Assessment* (product no. 022526kk), which can be obtained by calling the AICPA at (888) 777-7077 or visiting www.cpa2biz.com. The AICPA has also issued a number of questions and answers based upon member inquiries in the fall edition of the *In Our Opinion* newsletter. That newsletter can be accessed at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Opinion/.

Companion Audit Guide

.112 In December 2006, the AICPA published Audit Guide *Assessing and Responding to Audit Risk in a Financial Statement Audit* (product no. 012456kk). This guide helps auditors further understand the risk assessment standards. It includes practical guidance, examples, and an in-depth case study. The guide can be ordered by calling the AICPA at (888) 777-7077 or visiting www.cpa2biz.com.

Audit Documentation Technical Practice Aids

.113 In May 2007, the ASB issued two Technical Practice Aid (TPA) Technical Questions and Answers (TIS) related to SAS No. 103, *Audit Documentation* (AICPA, *Professional Standards*, vol. 1, AU sec. 339), which was issued in December 2005.

.114 TIS section 9100.06, "The Effect of Obtaining the Management Representation Letter on Dating the Auditor's Report" (AICPA, *Technical Practice Aids*), discusses whether the auditor is required to have the signed management representation letter in hand as of the date of the auditor's report. This question and answer indicates that although the auditor need not be in physical receipt of the representation letter on the date of the auditor's report, management will need to have reviewed the final representation letter and, at a minimum, have orally confirmed that they will sign the representation letter, without exception, on or before the date of the representations. The auditor will need to have the signed management representation letter in hand prior to releasing the auditor's report because management's refusal to furnish written representations constitutes a limitation on the scope of the audit sufficient to preclude an unqualified opinion.

.115 TIS section 8350.01, "Current Year Audit Documentation Contained in the Permanent File" (AICPA, *Technical Practice Aids*), discusses whether the provisions of AU section 339 related to documentation completion and retention apply to current year audit documentation maintained in the permanent file. This question and answer indicates that AU section 339 does apply to current year audit documentation maintained in a permanent file, or for that matter, maintained in any type of file, if the documentation serves as support for the current year's audit report.

Practice Alert No. 07-1, *Dating of the Auditor's Report and Related Practical Guidance*

.116 A key provision of AU section 339 is the amendment to paragraphs .01 and .05 of AU section 530, *Dating of the Independent Auditor's Report* (AICPA, *Professional Standards*, vol. 1), to require that the auditor's report not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion on the financial statements. As defined in the footnote to paragraph .01 of AU section 530, sufficient appropriate audit evidence includes, among other things, evidence that the audit documentation has been reviewed and that the organization's financial statements, including disclosures, have been prepared and that management has asserted that they have taken responsibility for them. Application of the rules may require revising the process used by audit firms at the end of fieldwork to include a field review of the audit working papers and financial statements. For some firms, an additional visit to the client's office to update subsequent event analysis and management's representations may be required as well.

.117 The Professional Issues Task Force (PITF) issued this practice alert to provide guidance to auditors of nonissuers regarding the following:

- The audit report date

- Evidence supporting financial statement amounts and disclosures, specifically relating to attorney letters, obtaining waivers, and consideration and evaluation of subsequent events
- Financial statement preparation and management's assertions
- Evidence that the audit documentation has been reviewed

.118 Readers may access the practice alert at www.aicpa.org/download/auditstd/pract_alert/pa_2007_1.pdf.

Accounting Issues and Developments

FASB Accounting Standards Codification™

.119 On January 15, 2008, FASB launched the one-year verification period of the *FASB Accounting Standards Codification*™ (codification). The codification is a major restructuring of accounting and reporting standards designed to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature in a topically organized structure. The codification includes all accounting standards issued by a standard setter within levels A–D of the current U.S. GAAP hierarchy, including FASB, AICPA, EITF, and related literature. The codification also includes relevant authoritative content issued by the Securities Exchange Commission (SEC), as well as selected SEC staff interpretations and administrative guidance.

.120 The codification does not change GAAP, but rather it reorganizes thousands of GAAP pronouncements into approximately 90 topics. Therefore, the one-year verification period is not to debate the underlying requirements of GAAP, but rather to verify that the codification appropriately captures them and accurately reflects existing U.S. GAAP for nongovernmental entities. The verification period is also a period for constituents to acquaint themselves with the new structure and submit feedback regarding any issues before the codification content becomes authoritative. At the end of the one-year verification period, FASB is expected to formally approve the codification as the single source of authoritative U.S. accounting and reporting standards, other than guidance issued by the SEC. At that time, FASB will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the codification will become nonauthoritative. FASB expects to approve the codification in April 2009.

.121 The codification uses a topical structure in which topics, subtopics, and sections are numerically referenced. This effectively organizes the content without regard to the original standard-setter or standard from which the content was derived. The topics of the codification reside in four main areas: presentation, financial statement accounts, broad transactions, and industry guidance. The overall presentation area addresses presentation of financial information but does not address items such as recognition, measurement, or derecognition. For example, topics in this area include income statement, balance sheet, and earnings per share. The financial statement account area presents topics in financial statement order including assets, liabilities, equity, revenue, and expenses. The broad transactions area includes topics related to multiple financial statement accounts that are transaction oriented, such as derivatives and business combinations. The industry area includes guidance unique to an industry or type of activity such as airlines, software, and real estate.

.122 Constituents are encouraged to use FASB's online Codification Research System free of charge and provide feedback to FASB on the codification. The Codification Research System includes general information on how to use the online research system and special features such as Cross Reference Reports, which show where current standards reside in the codification. Readers are encouraged to register and access the codification at www.fasb.org/project/codification&retrieval_project.shtml. Special attention should be paid to where the FASB reconciled conflicts in existing GAAP and to identify any unintentional changes to GAAP.

Changes to the Financial Accounting Foundation, FASB, and Governmental Accounting Standards Board

.123 In February 2008, the Board of Trustees of the Financial Accounting Foundation (FAF) voted to approve major changes to the oversight, structure, and operations of the FAF and its two standard-setting boards, FASB and the Governmental Accounting Standards Board (GASB).

.124 Specifically, the FAF Board of Trustees approved the following key changes:

- FAF changes include
  - — expanding the number and breadth of investors, accounting, business, financial, and government organizations and entities invited to nominate FAF trustees with the understanding that the final authority for all appointments rests solely with the discretion of the Board of Trustees;
  - — changing the current term of trustees from one three-year term with a possible second three-year term to one five-year term;
  - — changing the size of the Board of Trustees from a fixed 16 trustees to a flexible range of 14–18 trustees; and
  - — increasing the trustee governance activities, including its level of formal review, analysis and oversight of the data and materials regularly provided by FASB, Financial Accounting Standards Advisory Council (FASAC), GASB, and Governmental Accounting Standards Advisory Council (GASAC).
- FASB changes include
  - — reducing the size of FASB from seven members to five, effective July 1, 2008;
  - — retaining the FASB simple majority voting requirements;
  - — affirming the need for investor participation on FASB by broadening the current bylaw requirement that FASB members possess investment experience; and
  - — changing FASB's agenda-setting process whereby the FASB chair is vested with the authority, following appropriate consultation, to set the FASB project plans, agenda, and priority of projects.

- GASB changes include
  - — securing a stable and permanent funding source for GASB;
  - — retaining the current size, term length, and composition of GASB; and
  - — changing GASB's agenda-setting process whereby the GASB chair is vested with the authority, following appropriate consultation, to set the GASB project plans, agenda, and priority of projects.

Convergence With International Financial Reporting Standards

.125 Since their joint meeting in September 2002, FASB and the International Accounting Standards Board (IASB) have had a common goal—one set of accounting standards for international use. At the 2002 meeting, FASB and the IASB signed "The Norwalk Agreement," a memorandum of understanding between the two rule-setting bodies. In this agreement, each body acknowledged its commitment to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. At that meeting, FASB and the IASB pledged to use their best efforts to make their existing financial reporting standards fully compatible as soon as is practicable and to coordinate their future work programs to ensure that once achieved, compatibility is maintained. At their meetings in April and October 2005, FASB and the IASB reaffirmed their commitment to the convergence of U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). A common set of high quality, globally accepted standards remains the long-term strategic priority of both FASB and the IASB.

.126 There has been progress toward this goal. FASB Statement No. 157, *Fair Value Measurements*, and FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*, take U.S. GAAP in the direction of IFRS with respect to reporting at fair value. The goal of FASB and the IASB is to reach a conclusion in 2008 about whether major differences in a few focused areas should be eliminated through one or more short-term standard-setting projects and, if so, complete or substantially complete work in those areas. Those areas include impairment, income taxes, investment properties, government grants, research and development, joint ventures, subsequent events, and segment reporting. For more information on the status of this project go to www.fasb.org and www.iasb.org.

XBRL Initiative

.127 eXtensible Business Reporting Language (XBRL) is an XML-based markup language used to communicate financial and business data electronically. XBRL is being developed by an international not-for-profit consortium with more than 450 member organizations, including accounting firms, software providers, financial intermediaries, academics, and technologists.

.128 XBRL is used to "tag" financial statements so that the information in those statements is machine readable, thereby allowing users to analyze financial information more easily and quickly. To assist with the tagging process, XBRL US has currently developed over 11,000 financial concepts, which essentially represent a dictionary of U.S. GAAP and other financial reporting requirements.

.129 On January 11, 2008, the SEC Advisory Committee on Improvement to Financial Reporting proposed that the SEC adopt a mandatory phase-in of XBRL for a specified time period, starting with the largest 500 domestic public reporting companies. As of the date of this alert, that mandatory phase-in period had not yet been determined. Be sure to check the SEC's Interactive Data link at www.sec.gov to view the current status of the project.

.130 For more information on XBRL, visit the XBRL site at www.xbrl.org.

Summary of Recent Accounting Pronouncements and Related Guidance

.131 Presented in the following table is a list of recently issued accounting pronouncements and related guidance. For information on accounting standards issued subsequent to the writing of this alert, please refer to the AICPA Web site at www.aicpa.org and the FASB Web site at www.fasb.org. You may also look for announcements of newly issued standards in the *CPA Letter* and *Journal of Accountancy*.

Recent Accounting Pronouncements and Related Guidance

FASB Statement No. 161 (March 2008)	*Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*
FASB Statement No. 160 (December 2007)	*Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*
FASB Statement No. 141 (revised 2007) (December 2007)	*Business Combinations*
FASB Statement No. 159 (February 2007)	*The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*
FASB Statement No. 158 (September 2006)	*Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*
FASB Statement No. 157 (September 2006)	*Fair Value Measurements*
FASB Interpretation No. (FIN) 48 (June 2006)	*Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* FASB Staff Position (FSP) FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises,* issued in February 2008, defers the effective date of FIN 48 for certain nonpublic enterprises, as defined in the FSP, to the annual financial statements for fiscal years beginning after December 15, 2007.

(continued)

Recent Accounting Pronouncements and Related Guidance	
FASB EITF Issues (Various dates)	Go to www.fasb.org/eitf/agenda.shtml for a complete list of EITF Issues.
FASB Staff Positions (Various dates)	Go to www.fasb.org/fasb_staff_positions/ for a complete list of FSPs.
AICPA SOP 07-1 (AICPA, *Technical Practice Aids*, ACC sec. 10,930)	*Clarification of the Scope of the Audit and Accounting Guide* Investment Companies *and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* In February 2008, FASB issued FSP SOP 07-1-1, *Effective Date of AICPA Statement of Position 07-1,* which indefinitely defers the effective date of SOP 07-1 and prohibits adoption of the SOP for an entity that has not early adopted the SOP before issuance of this FSP. An entity that early adopted the SOP before issuance of this FSP, is permitted, but not required to continue to apply the provisions of the SOP. Entities that elect to retain their adoption of the guidance must apply it to all consolidated entities going forward, including those formed or acquired after the adoption of SOP 07-1.
TIS section 6140.20–.22 (AICPA, *Technical Practice Aids*) (Nonauthoritative)	These questions and answers discuss not-for-profit organizations fund-raising expenses.
TIS section 6931.08–.10 (AICPA, *Technical Practice Aids*) (Nonauthoritative)	These questions and answers discuss various employee benefit plan topics.
AICPA Practice Guide (Nonauthoritative)	"Practice Guide on Accounting for Uncertain Tax Positions Under FIN 48"

.132 Of the accounting pronouncements and related guidance listed in the previous table, those having particular significance to the not-for-profit industry are briefly explained here. The following summaries are for informational purposes only and should not be relied upon as a substitute for a complete reading of the applicable standard. The AICPA general *Audit Risk Alert—2007/08* and other AICPA industry-specific alerts also contain summaries of recent pronouncements that may not be discussed here. To obtain copies of AICPA literature, call (888) 777-7077 or visit www.cpa2biz.com.

Disclosures About Derivative Instruments and Hedging Activities

.133 In March 2008, FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows.

.134 The new standard improves transparency about the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows.

.135 FASB Statement No. 161 achieves these improvements by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity's liquidity by requiring disclosure of derivative features that are credit risk related. Finally, it requires cross referencing within footnotes to enable financial statement users to locate important information about derivative instruments.

.136 It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged.

Business Combinations

.137 In December 2007, FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51,* which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary (sometimes called *minority interests*) and for the deconsolidation of a subsidiary. None of the following apply to not-for-profit organizations: FASB Statement No. 160 nor its amendments to Accounting Research Bulletin (ARB) No. 51; Accounting Principles Board (APB) Opinion Nos. 18 and 29; FASB Statement Nos. 60, 89, 128, 130, and 142; FASB Interpretation Nos. (FINs) 37 and 46(R); AICPA Accounting Interpretation No. 1; Statement of Position (SOP) 04-2, *Accounting for Real Estate Time-Sharing Transactions* (AICPA, *Technical Practice Aids*, ACC sec. 10,910); and several EITF issues. Not-for-profit organizations should continue to apply the guidance in Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* before the amendments made by FASB Statement No. 160, SOP 94-3, *Reporting of Related Entities by Not-for-Profit Organizations* (AICPA, *Technical Practice Aids*, ACC sec. 10,610), and other applicable standards until FASB issues interpretative guidance. FASB Statement No. 160 is effective for fiscal years beginning on or after December 15, 2006. Earlier adoption is prohibited.

.138 Also in December 2007, FASB issued FASB Statement No. 141 (revised 2007), *Business Combinations,* which replaces FASB Statement No. 141, *Business Combinations.* Like its predecessor, FASB Statement No. 141(R) is not applicable to combinations between not-for-profit organizations or the acquisition of a for-profit business by a not-for-profit organization. The nullifications or amendments to other standards made by FASB Statement No. 141(R) also are not applicable to not-for-profit organizations. Thus, not-for-profit organizations should continue to apply FASB Statement Nos. 72 and 147 and FINs 4 and 9, as indicated in paragraphs 1.24–.28 of AICPA Audit and Accounting Guide *Not-For-Profit Organizations*. Not-for-profit organizations also should continue to apply the following standards as indicated in paragraphs 1.24–.28 of AICPA Audit and Accounting Guide *Not-For-Profit Organizations* without regard to the amendments made by FASB Statement No. 141(R): ARB No. 43; APB Opinion

Nos. 14, 18, 28, 29, and 30; FASB Statement Nos. 2, 5, 15, 45, 52, 60, 68, 86, 87, 97, 106, 109, 113, 120, 123(R), 133, 142, 144, 146, 150, and 154; and FINs 21, 26, 46(R), and 48. In addition, the amendments made by FASB Statement No. 141(R) to FASB Technical Bulletin (TB) 84-1; AICPA Statement of Position Nos. 78-9, 90-7, 93-6, 96-1, 00-3, 01-6, 03-3, and 05-1; and AICPA Practice Bulletin (PB) Nos. 4, 6, and 14 do not apply to not-for-profit organizations, nor do the changes made by FASB Statement No. 141(R) to FASB TB 85-5; FSP Nos. 141-1 and 142-1; AICPA PB No. 11, many EITF issue consensuses, and several responses in the FASB Staff Q&A on FASB Statement No. 109, *Accounting for Income Taxes*.

Fair Value Measurements

FASB Statement No. 157

.139 In September 2006, FASB issued Statement No. 157, *Fair Value Measurements*, to provide enhanced guidance for using fair value to measure assets and liabilities. This standard defines fair value and expands disclosures about fair value measurements. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances.

.140 Prior to this statement, there were different definitions of fair value, and guidance for applying those definitions was dispersed among many accounting pronouncements. Difference in the existing guidance created inconsistencies that added to the complexity in applying GAAP. FASB Statement No. 157 provides increased consistency and comparability in fair value measurements. Expanded disclosures about the use of fair value to measure assets and liabilities should provide users of financial statements with better information about the use of fair value in the financial statements, the inputs used to develop the measurements, and the effect of the measurements on earnings (or changes in net assets) for the period.

.141 In February 2008, the FASB issued FSP FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, which amends FASB Statement No. 157, to exclude FASB Statement No. 13, *Accounting for Leases*, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under FASB Statement No. 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under FASB Statement No. 141 or FASB Statement No. 141(R), regardless of whether those assets and liabilities are related to leases. This FSP is effective upon the initial adoption of FASB Statement No. 157.

.142 FASB Statement No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted. However, in February 2008, FASB also issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which is effective upon issuance. This FSP delays the effective date of FASB Statement No. 157 until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years for fair value measurements of all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay is intended to allow the FASB and its constituents the time to consider the various implementation issues associated with FASB Statement No. 157. Readers can access the full text of FASB Statement No. 157 on the FASB Web site at www.fasb.org.

.143 The following paragraphs summarize FASB Statement No. 157, but are not intended as a substitute for the reading of the statement itself.

Definition of Fair Value

.144 Paragraph 5 of FASB Statement No. 157 defines *fair value* as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." That definition retains the exchange price notion in earlier definitions of fair value, but clarifies that the exchange price is the price in a hypothetical transaction at the measurement date in the market in which the reporting entity would transact for the asset or liability. The hypothetical transaction to sell the asset or transfer the liability is considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price).

.145 A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the *principal market*—defined as the market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability—or, in the absence of a principal market, the most advantageous market for the asset or liability.

.146 A fair value measurement of an asset assumes the highest and best use of the asset by market participants, considering the use of the asset that is physically possible, legally permissible, and financially feasible at the measurement date. Highest and best use for an asset is established by one of two valuation premises: *value in-use* or *value in-exchange*. The highest and best use of the asset is in-use if the asset would provide maximum value to market participants principally through its use in combination with other assets as a group (as installed or otherwise configured for use). For example, value in-use might be appropriate for certain nonfinancial assets. An asset's value in-use should be based on the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets as a group and that those other assets would be available to market participants. The highest and best use of the asset is in-exchange if the asset would provide maximum value to market participants principally on a standalone basis. For example, value in-exchange might be appropriate for a financial asset. An asset's value in-exchange is determined based on the price that would be received in a current transaction to sell the asset standalone.

.147 A fair value measurement for a liability reflects its *nonperformance risk* (the risk that the obligation will not be fulfilled). Because nonperformance risk includes the reporting entity's credit risk, the reporting entity should consider the effect of its *credit risk* (credit standing) on the fair value of the liability in all periods in which the liability is measured at fair value.

Valuation Techniques

.148 As described in FASB Statement No. 157, valuation techniques, which are consistent with the market approach, income approach, cost approach, or some combination of these approaches, should be used to measure fair value:

- The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach include matrix pricing and often use market multiples derived from a set of comparables.

- The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Valuation techniques consistent with the income approach include present value techniques, option-pricing models, and the multiperiod excess earnings method.

- The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (often referred to as *current replacement cost*). Fair value is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence.

.149 Valuation techniques that are appropriate in the circumstances and for which sufficient data are available should be used to measure fair value. In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate and the respective indications of fair value should be evaluated and weighted, as appropriate.

Present Value Techniques

.150 Appendix B of FASB Statement No. 157 provides guidance on present value techniques. Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example, the *discount rate adjustment technique* (also called the *traditional present value technique*) uses a risk-adjusted discount rate and contractual, promised, or most likely cash flows. In contrast, expected present value techniques use the probability-weighted average of all possible cash flows (referred to as *expected cash flows*). The traditional present value technique and two methods of expected present value techniques are discussed more fully in appendix B of FASB Statement No. 157.

The Fair Value Hierarchy

.151 FASB Statement No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability (referred to in the statement as inputs). Paragraphs 21–31 establish a fair value hierarchy that distinguishes between (*a*) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (*observable inputs*) and (*b*) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (*unobservable inputs*). Valuation techniques used to measure fair value should maximize the use of observable inputs and minimize the use of unobservable inputs.

.152 The fair value hierarchy in FASB Statement No. 157 prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and should be used to measure fair value whenever available, except as discussed in paragraphs 25–26 of FASB Statement No. 157.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. An adjustment that is significant to the fair value measurement in its entirety might render the measurement a Level 3 measurement, depending on the level in the fair value hierarchy within which the inputs used to determine the adjustment fall. Level 2 inputs include the following:
    - — Quoted prices for similar assets or liabilities in active markets
    - — Quoted prices for identical or similar assets or liabilities in markets that are not active
    - — Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates)
    - — Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs)
- Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs should be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. In developing unobservable inputs, the reporting entity need not undertake all possible efforts to obtain information about market participant assumptions. Unobservable inputs should reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

Disclosures

.153 Paragraphs 32–35 of FASB Statement No. 157 expand the disclosures required for assets and liabilities measured at fair value. For assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition or that are measured on a nonrecurring basis in periods subsequent to initial recognition, the statement requires the reporting entity to disclose certain information that enables users of its financial statements to assess the inputs used to develop those measurements. For recurring fair value measurements using significant unobservable inputs (Level 3), the reporting entity is required to disclose certain information to help users assess the effect of the measurements on earnings (or changes in net assets) for the period.

FASB Statement No. 159

.154 Subsequent to the issuance of FASB Statement No. 157, FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*. This statement is expected to expand the use of fair value measurement, which is consistent with FASB's long-term measurement objectives for accounting for financial instruments. FASB Statement No. 159 allows entities to choose to measure many financial instruments and certain other items at fair value. The standard permits an organization to elect the fair value option on an instrument-by-instrument basis; and once the election is made, it is irrevocable. This statement's objective is to improve financial reporting by providing entities with an opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. In addition, FASB Statement No. 159 establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The statement does not eliminate disclosure requirements included in other accounting standards, such as the requirements for disclosures about fair value measurements included in FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, and FASB Statement No. 157.

.155 FASB Statement No. 159 is effective as of the beginning of an organization's first fiscal year that begins after November 15, 2007. FASB and the SEC expressed concern in the way some early adopters applied the transition provisions of the standard. The AICPA Center for Audit Quality (CAQ) issued an alert on this development in April 2007. The alert advises auditors to exercise appropriate professional skepticism when evaluating if a principles-based standard, such as this, is applied in a good faith manner consistent with those objectives and principles. Specifically the alert warns auditors to "be alert for circumstances in which an organization proposes to adopt FASB Statement No. 159 in a manner that is contrary to the principles and objectives outlined in the standard." The alert can be accessed at www.thecaq.org/newsroom/pdfs/CAQPressRelease_041807a.pdf. Readers can access the full text of FASB Statement No. 159 on the FASB Web site at www.fasb.org.

Deferral of FIN 48 for Certain Nonpublic Entities

.156 FIN 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109,* was issued in June 2006 and is effective for fiscal years beginning after December 15, 2006. However, subsequent to its issuance the FASB issued FSP FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which defers the effective date of FIN 48 for nonpublic enterprises included in the FSP's scope to the annual financial statements for fiscal years beginning after December 15, 2007. For the full text of FIN 48 and its associated FSPs visit the FASB Web site.

Recent AICPA Independence and Ethics Pronouncements

.157 AICPA *Independence and Ethics Alert—2007/08* (product no. 022478kk) contains a complete update on new independence and ethics pronouncements. This alert can be obtained by calling the AICPA at (888) 777-7077 or visiting www.cpa2biz.com. Readers should obtain this alert to be aware of independence and ethics matters that will affect their practice.

On the Horizon

.158 Auditors should keep abreast of auditing and accounting developments and upcoming guidance that may affect their engagements. The following sections present brief information about some ongoing projects that have particular significance to the not-for-profit industry or that may result in significant changes. Remember that exposure drafts are nonauthoritative and cannot be used as a basis for changing existing standards.

.159 The following table lists the various standard-setting bodies' Web sites, where information may be obtained on outstanding exposure drafts, including downloading exposure drafts. These Web sites contain in-depth information about proposed standards and other projects in the pipeline. Many more accounting and auditing projects exist in addition to those discussed here. Readers should refer to information provided by the various standard-setting bodies for further information.

Standard-Setting Body	***Web Site***
AICPA Auditing Standards Board (ASB)	www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Auditing+Standards+Board/
Financial Accounting Standards Board (FASB)	www.fasb.org
Governmental Accounting Standards Board (GASB)	www.gasb.org
Professional Ethics Executive Committee (PEEC)	www.aicpa.org/Professional+Resources/Professional+Ethics+Code+of+Professional+Conduct/Professional+Ethics/

Help Desk—The AICPA's standard-setting committees publish exposure drafts of proposed professional standards exclusively on the AICPA Web site. The AICPA will notify interested parties by e-mail about new exposure drafts. To be added to the notification list for all AICPA exposure drafts, send your e-mail address to service@aicpa.org. Indicate "exposure draft e-mail list" in the subject header field to help process your submission more efficiently. Include your full name, mailing address, and, if known, your membership and subscriber number in the message. The AICPA Web site also has connecting links to the other standard-setting bodies listed here.

Overhaul Project—AICPA Audit and Accounting Guide *Not-For-Profit Organizations*

.160 The AICPA is continuing to make progress overhauling the AICPA Audit and Accounting Guide *Not-For-Profit Organizations*, addressing numerous accounting, auditing, industry, and regulatory issues that have transpired since this guide was originally issued in 1996. During this project, the AICPA will continue to issue annual editions of the guide, updated to reflect recent audit and accounting pronouncements.

Auditing Pipeline—Nonissuers

ASB Clarity Project

.161 The ASB formed a Clarity Task Force to address concerns over the clarity, length, and complexity of generally accepted auditing standards. In March 2007, the ASB issued a discussion paper titled *Improving the Clarity of ASB Standards,* seeking feedback on proposals to "clarify" its standards. In response to the feedback received on the discussion paper and subsequent discussions with interested parties, the ASB has established clarity drafting conventions and has undertaken to revise all of its SASs in accordance with those conventions. The clarity drafting conventions include:

- Establishing objectives for each of the standards, thereby providing a framework for the application of professional judgment
- Presenting application and other explanatory material in a separate section that follows the requirements
- Numbering application and other explanatory material paragraphs using an "A" prefix
- Cross-referencing introductory, objective, and requirement paragraphs to related application and other explanatory material paragraphs
- Using formatting techniques to enhance the readability of the SASs
- Including, where necessary, special considerations relevant to the audit of smaller, less complex entities within the text of the SAS
- Including, where necessary, any special considerations in the audit of governmental entities within the text of the SAS

- Establishing a glossary of terms that would be presented in a separate section of the codification of the standards

Convergence With International Standards

.162 The ASB is working toward convergence with international auditing standards, whereby projects are developed concurrently with those of the International Auditing and Assurance Standards Board (IAASB). The ASB has created a number of task forces charged with monitoring specific activities of the IAASB, assisting the ASB in commenting on exposure drafts of International Standards on Auditing (ISA), and drafting proposed SASs using the ISA, including the international convention for wording, as the base standard. The status of ASB projects can be monitored online at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Auditing+Standards+Board/.

Proposed Statement on Standards for Attestation Engagements Regarding Reporting on an Entity's Internal Control Over Financial Reporting

.163 In January 2006, the ASB issued a revised exposure draft of a proposed Statement on Standards for Attestation Engagements (SSAE) that would supersede chapter 5, "Reporting on an Entity's Internal Control Over Financial Reporting," of SSAE No. 10, *Attestation Engagements: Revision and Recodification* (AICPA, *Professional Standards*, vol. 1, AT sec. 501), as amended. This proposed SSAE establishes standards and provides guidance to the practitioner who is engaged to issue or does issue an examination report on the effectiveness of an organization's internal control over financial reporting as of a point in time (or on an assertion thereon). As mentioned previously, in May 2007, the PCAOB adopted Auditing Standard No. 5, which replaces Auditing Standard No. 2. Knowing the forthcoming changes would be relevant to the revision of AT section 501, the ASB previously decided to defer the issuance of a final revised AT section 501 until the PCAOB issued its amendments and the ASB had time to consider them. The Internal Control Task Force of the ASB is responsible for this revision. Readers may monitor progress on the AICPA Web site at www.aicpa.org.

Proposed Amendment to SAS No. 69, The Meaning of *Present Fairly in Conformity With Generally Accepted Accounting Principles*

.164 In May 2005, the ASB issued an exposure draft introducing a proposed SAS titled *Amendment to Statement on Auditing Standards No. 69,* The Meaning of *Present Fairly in Conformity With Generally Accepted Accounting Principles, for Nongovernmental Entities*. This proposed SAS, which applies only to nongovernmental entities, has been issued in response to FASB's proposed Statement of Financial Accounting Standards *The Hierarchy of Generally Accepted Accounting Principles*. The FASB proposal places responsibility for the GAAP hierarchy for nongovernmental entities in the accounting literature. Accordingly, the proposed SAS deletes the GAAP hierarchy for nongovernmental entities from the auditing literature (SAS No. 69 [AICPA, *Professional Standards*, vol. 1, AU sec. 411]). The ASB decided to coordinate the provisions and effective date of this exposure draft with the proposed FASB statement, which can be obtained at www.fasb.org. The ASB will issue its final SAS coincidentally with FASB's issuance of its final standards. As noted earlier in this alert, the

PCAOB has already adopted its proposal to remove the GAAP hierarchy from its standards.

Accounting Pipeline

.165 Presented below are accounting projects and pronouncements currently in process. Some of the proposed pronouncements discussed in the prior year alert have not been finalized as of the date of this writing, and thus are included again.

Fair Value

.166 During phase one of FASB's fair value option project, FASB issued FASB Statement No. 159, which was previously discussed. In phase two of the project, FASB will consider allowing the fair value option for certain nonfinancial assets and nonfinancial liabilities and deposit liabilities of depository institutions, which are excluded from the scope of FASB Statement No. 159. Deliberations on phase two are expected to begin in the first quarter of 2008. Readers should remain alert to developments by visiting the FASB Web site.

Transfers of Financial Assets

.167 FASB is working on a project to amend FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125*, to address issues related to the permitted activities of a qualifying special-purpose entity (QSPE), isolation criteria, and other issues that arose during redeliberations on the amendment of FASB Statement No. 140 to improve comparability of financial statements. In August 2005, FASB issued the exposure draft *Accounting for Transfers of Financial Assets*, which was a revision of a June 2003 exposure draft. During the second quarter of 2008, FASB expects to issue an amended exposure draft. See the FASB Web site for complete information.

Income Taxes

.168 The objective of this project is to improve the accounting for income taxes and reduce the application differences between FASB Statement No. 109, *Accounting for Income Taxes,* and IAS Statement No. 12, *Income Taxes*. FASB plans to issue an exposure draft during the second quarter of 2008. Readers can track the project's progress on the FASB Web site.

GAAP Hierarchy

.169 This proposed statement would identify the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental companies that are presented in conformity with U.S. GAAP (or the GAAP hierarchy). The GAAP hierarchy is currently presented in AICPA SAS No. 69. However, FASB believes the GAAP hierarchy should be directed specifically to companies because it is the company, not the auditor, which is responsible for selecting its accounting principles for financial statements. Accordingly, FASB concluded that the GAAP hierarchy should reside in the accounting literature established by FASB. FASB decided to carry forward the GAAP hierarchy as set forth in SAS No. 69, subject to certain modifications. The FASB staff will coordinate with the AICPA (as previously discussed in the "Auditing Pipeline—Nonissuers" section) to ensure that each of the statements has a uniform effective date. Readers should be alert for the issuance of a final statement.

Proposed FASB EITFs and FSPs

.170 ***Proposed FASB EITF Issues.*** Numerous open issues are under deliberation by the EITF. Readers should visit the FASB Web site at www.fasb.org/eitf/agenda.shtml for complete information.

.171 ***Proposed FSPs.*** A number of proposed FSPs are currently in progress. Readers should visit the FASB Web site at www.fasb.org/fasb_staff_positions/ for complete information.

Resource Central

.172 The following are various resources that practitioners engaged in the not-for-profit industry may find beneficial.

Publications

.173 Practitioners may find the following publications useful with respect to the not-for-profit industry:

- Audit and Accounting Guide *Not-For-Profit Organizations* (2008) (product no. 012648kk)
- Audit Guide Government Auditing Standards *and Circular A-133 Audits* (2007) (product no. 012747kk)
- Audit and Accounting Guide *State and Local Governments* (2008) (product no. 012668kk)
- Audit and Accounting Guide *Health Care Organizations* (2007) (product no. 012617kk)
- Audit Guide *Analytical Procedures* (2008) (product no. 012558kk)
- Audit Guide *Assessing and Responding to Audit Risk in a Financial Statement Audit* (2006) (product no. 012456kk)
- Audit Guide *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities* (2007) (product no. 012527kk)
- Audit Guide *Auditing Revenue in Certain Industries* (2008) (product no. 012518kk)
- Audit Guide *Service Organizations: Applying SAS No. 70, as Amended* (2008) (product no. 012778kk)
- AICPA *Audit Risk Alert—2007/08* (product no. 022338kk)
- Audit Risk Alert *State and Local Governmental Developments—2007* (product no. 022437kk)
- Audit Risk Alert Government Auditing Standards *and Circular A-133 Audits—2007/08* (product no. 022457kk)
- Audit Risk Alert *Health Care Industry Developments—2007/08* (product no. 022348kk)
- Audit Risk Alert *Compilation and Review Alert—2007/08* (product no. 022308kk)
- Audit Risk Alert *Independence and Ethics Alert—2007/08* (product no. 022478kk)
- Audit Risk Alert *SEC and PCAOB Alert—2007/08* (product no. 022498kk)

- Audit Risk Alert *Understanding the New Auditing Standards Related to Risk Assessment* (product no. 022526kk)
- Audit Risk Alert *Understanding SAS No. 112 and Evaluating Control Deficiencies* (product no. 022536kk)
- Financial Reporting Alert *Current Accounting Issues and Risks—2008* (product no. 029208kk)
- *Checklists and Illustrative Financial Statements* for *Not-for-Profit Organizations* (product no. 008988kk)
- *Accounting Trends & Techniques—Not-for-Profit Organizations* (2005) (product no. 006616kk)
- *Audit and Accounting Manual* (2007) (product no. 005137kk)
- *Accounting Trends & Techniques, 61st Edition* (product no. 009899kk)

AICPA reSOURCE: Accounting and Auditing Literature

.174 The AICPA has created your core accounting and auditing library online. AICPA reSOURCE is now customizable to suit your preferences or your firm's needs. Or, if you prefer to have access to the entire library, that is available too. Get access—anytime, anywhere—to the AICPA's latest *Professional Standards*, *Technical Practice Aids*, Audit and Accounting Guides (more than 20), Audit Risk Alerts (more than 15), and *Accounting Trends & Techniques*. To subscribe to this essential online service for accounting professionals, go to www.cpa2biz.com.

Continuing Professional Education

.175 The AICPA offers a number of continuing professional education (CPE) courses that are valuable to CPAs working in public practice and industry, including the following:

- *AICPA's Annual Accounting and Auditing Update Workshop* (2007 Edition) (product no. 736183kk [text] or 187191kk [DVD]). Whether you are in industry or public practice, this course keeps you current and informed and shows you how to apply the most recent standards.
- *Internal Control Deficiencies: Assessment and Reporting Under SAS 112* (product no. 733290kk [text] or 183290kk [DVD]). This course focuses on compliance with the standard's requirement by examining each stage of the decision making framework using numerous illustrations and practice exercises. The course also applies to managers of nonpublic companies to enable them to decide whether a control deficiency exists and how to correct it.

.176 Among the many courses, the following are specifically related to the not-for-profit industry:

- *Auditing Nonprofits: Tips and Traps* (product no. 731524kk [text]). This course will help you better understand essential aspects of auditing in this industry to conduct audits in the most effective manner, and offer practical tips to guide you through possible traps encountered in auditing a not-for-profit.
- *Nonprofit Auditing and Accounting Update (2007–2008 Edition)* (product no. 732093kk [text] or 182074kk [DVD]). Covering all

the latest auditing and accounting developments affecting not-for-profit entities, this course will give you a complete understanding of changes in the not-for-profit environment. For 2007–2008, the course will include coverage of the new Yellow Book, the risk assessment SASs, SAS No. 112, and more.

- *Accounting and Reporting Practices of Not-for-Profit Organizations* (product no. 743275kk [text]). Understand and apply the requirements of FASB and AICPA pronouncements to your not-for-profit clients. Consider real-world financial statements, cases and problems faced by CPAs with not-for-profit clients and by executives of not-for-profit organizations.

- *Frequent Frauds Found in Governments and Not-For-Profits* (product no. 733310kk [text]). Through an informative case study approach, this course illustrates common frauds that make headlines and damage the reputations of government and not-for-profit organizations.

.177 Visit www.cpa2biz.com for a complete list of CPE courses.

Online CPE

.178 AICPA CPExpress (formerly AICPA InfoBytes), offered exclusively through CPA2Biz.com, is AICPA's flagship online learning product. AICPA CPExpress now offers a free trial subscription to the entire product for up to 30 days. AICPA members pay $149 for a new subscription and $119 for the annual renewal. Nonmembers pay $369 for each. Divided into 1-credit and 2-credit courses that are available 24 hours a day, 7 days a week, AICPA CPExpress offers hundreds of hours of learning in a wide variety of topics. To register or learn more, visit www.cpa2biz.com.

Webcasts

.179 Stay plugged in to what is happening and earn CPE credit right from your desktop. AICPA webcasts are high quality, two-hour CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available on CD-ROM.

CFO Quarterly Roundtable Series

.180 The CFO Quarterly Roundtable Webcast Series, brought to you each calendar quarter, covers a broad array of "hot topics" that successful organizations employ and subjects that are important to the CFO's personal success. From financial reporting and budgeting, and forecasting to asset management and operations, the roundtable helps CFOs, treasurers, controllers, and other financial executives excel in their demanding roles.

Member Service Center

.181 To order AICPA products, receive information about AICPA activities, and find help on your membership questions, call the AICPA Service Operations Center at (888) 777-7077.

Hotlines

Accounting and Auditing Technical Hotline

.182 Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with the answer. Beginning January 14, 2008, hotline hours were extended so that the hotline is now available from 9am to 8pm on weekdays. You can reach the Technical Hotline at (877) 242-7212 or at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+and+Auditing+Technical+Help/.

Ethics Hotline

.183 In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at (888) 777-7077.

Industry Conference

.184 The AICPA offers its annual not-for-profit conference in June. The National Not-For-Profit Industry Conference is a comprehensive forum that deals with the challenges facing not-for-profit practitioners and financial executives today. It's where you'll find out the latest information on the impact of tax, management, auditing, and accounting issues pertaining to not-for-profit organizations. You'll also receive training in operational strategies that are crucial to the well-being of a not-for-profit organization. For further information about the conference, call (888) 777-7077 or visit www.cpa2biz.com.

AICPA Governmental Audit Quality Center

.185 The GAQC is a firm-based voluntary membership center designed to help CPAs meet the challenges of performing quality audits in this unique and complex area. The GAQC's primary purpose is to promote the importance of quality governmental audits and the value of such audits to purchasers of governmental audit services. The GAQC also offers resources to enhance the quality of a firm's governmental audits.

.186 The mission of the GAQC is to do the following:

- Raise awareness about the importance of governmental audits.
- Serve as a comprehensive resource provider on governmental audits for member firms.
- Create a community of firms that demonstrates a commitment to governmental audit quality.
- Provide center members with an online forum tool for sharing best practices and discussing audit, accounting, and regulatory issues.
- List member firms to enable purchasers of governmental audit services to identify firms that are members.

- Provide information about the center's activities to other governmental audit stakeholders.

.187 For more information about the GAQC, visit http://gaqc.aicpa.org.

AICPA Industry Expert Panel—Not-for-Profit Organizations

.188 For information about the activities of the AICPA's Not-for-Profit Organizations Expert Panel, visit the AICPA Web site at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+Standards/expertpanel_notforprofit.htm.

Industry Web Sites

.189 The Internet covers a vast amount of information that may be valuable to auditors of not-for-profit organizations, including current industry trends and developments. Some of the more relevant sites for auditors with not-for-profit clients include those shown in the appendix of this alert.

.190 The Not-for-Profit industry practices of some of the larger CPA firms may also contain industry-specific auditing and accounting information that is helpful to auditors.

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.191 This Audit Risk Alert replaces *Not-for-Profit Organizations Industry Developments—2007*.

.192 The Audit Risk Alert *Not-for-Profit Organizations Industry Developments* is published annually. As you encounter audit or industry issues that you believe warrant discussion in next year's Audit Risk Alert, please feel free to share them with us. Any other comments that you have about the Audit Risk Alert would also be appreciated. You may e-mail these comments to ccole@aicpa.org or write to

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Appendix—Additional Web Resources

Here are some useful Web sites that may provide valuable information to accountants.

Web Site Name	*Content*	*Web Site*
American Institute of CPAs (AICPA)	Summaries of recent auditing and other professional standards as well as other AICPA activities	www.aicpa.org www.cpa2biz.com
AICPA Accounting Standards Executive Committee (AcSEC)	Issues guides, practice bulletins containing financial, accounting, and reporting recommendations, among other things	www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+Standards
AICPA Accounting and Review Services Committee (ARSC)	Develops and issues review and compilation standards and interpretations	www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Accounting+and+Review+Services+Committee
AICPA Professional Issues Task Force (PITF)	Accumulates and considers practice issues that appear to present concerns for practitioners and for disseminating information or guidance, as appropriate, in the form of practice alerts	www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Professional+Issues+Task+Force
Economy.com	Source for analysis, data, forecasts, and information on the United States and world economies	www.economy.com
The Federal Reserve Board	Key interest rates	www.federalreserve.gov
Financial Accounting Standards Board (FASB)	Summaries of recent accounting pronouncements and other FASB activities	www.fasb.org
USA.gov	Portal through which all government agencies can be accessed	www.usa.gov
Government Accountability Office (GAO)	Policy and guidance materials, reports on federal agency major rules	www.gao.gov

Web Site Name	*Content*	*Web Site*
Governmental Accounting Standards Board (GASB)	Summaries of recent accounting pronouncements and other GASB activities	www.gasb.org
International Accounting Standards Board (IASB)	Summaries of International Financial Reporting Standards and International Accounting Standards	www.iasb.org
International Federation of Accountants (IFAC)	Information on standards-setting activities in the international arena	www.ifac.org
Private Company Financial Reporting Committee (PCFRC)	Information on the initiative to further improve FASB's standard-setting process to consider needs of private companies and their constituents of financial reporting	www.pcfr.org
Board Source	Resources to help strengthen not-for-profit organization boards of directors	www.boardsource.org
The Chronicle of Philanthropy	Articles from the Chronicle of Philanthropy newspaper and links to other sites	www.philanthropy.com
CompassPoint Nonprofit Services	Workshops, consulting, publications, and other information and resources of interest to managers of not-for-profit organizations	www.compasspoint.org
CPAnet	Links to other Web sites of interest to CPAs	www.cpanet.com
Guidestar	Information on not-for-profit organizations and news and resources for not-for-profit organizations and donors	www.guidestar.org
Independent Sector	A forum to encourage giving, volunteering, not-for-profit initiatives, and citizen action	www.independentsector.org

(continued)

Web Site Name	*Content*	*Web Site*
Information for Tax-Exempt Organizations (an IRS site)	A Treasury Department site providing information and answers to frequently asked questions regarding tax-exempt organizations	www.irs.gov/charities/index.html
National Association of College and University Business Officers	Provides information geared to colleges and universities, including accounting tutorials on specific situations encountered in higher education accounting	www.nacubo.org
The National Center for Charitable Statistics	Provides statistics on revenue and expenses of not-for-profit organizations	www.nccs.urban.org
The Nonprofit Risk Management Center	Provides information to help not-for-profit organizations control their risks	www.nonprofitrisk.org
The Nonprofit Times Online	Articles from the Nonprofit Times newspaper and links to other sites	www.nptimes.com
U.S. Office of Management and Budget	OMB information and literature	www.whitehouse.gov/OMB